REAUTHORIZATION OF THE RAILROAD FINANCIAL ASSISTANCE PROGRAMS

HEARING

BEFORE THE

SUBCOMMITTEE ON SURFACE TRANSPORTATION

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

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ON

REAUTHORIZATION OF THE RAILROAD FINANCIAL ASSISTANCE PROGRAMS

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REAUTHORIZATION OF THE RAILROAD FINANCIAL ASSISTANCE PROGRAMS

MONDAY, MARCH 15, 1982

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION,
SUBCOMMITTEE ON SURFACE TRANSPORTATION,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9 a.m., in room 235, Russell Senate Office Building, Hon. John C. Danforth (chairman of the subcommittee) presiding.

OPENING STATEMENT BY SENATOR DANFORTH

Senator DANFORTH. Today the Subcommittee on Surface Transportation will be examining two railroad financial assistance programs. The first of these programs is known as the 505 preference share program. It provides low interest loans to aid in the rehabilitation of rail lines and the acquisition of lines abandoned by the Milwaukee and Rock Island Railroads. The second program is the 511 loan guarantee program, which has been used primarily for freight car and locomotive repairs.

Congress established these programs back in 1976, when the railroad industry was in serious financial difficulty, and the railroad network was in need of repair and improvement. Since that time, the state of the industry has improved. Such improvement, along with other factors, has brought into question the need to continue these programs in the future.

With the authorization for the preference share program due to expire at the end of the fiscal year, the subcommittee is using the opportunity to examine the programs. As part of this examination, we will be looking at whether these programs have been effective in meeting their statutory goals; whether there is a need for them in the future; and if there is a need, what direction they should take. In considering the need and future direction of these programs, the subcommittee will be deciding whether it is possible to complete such major railroad restructuring projects as that located in the St. Louis area without some form of additional Federal financial assistance.

In addition to the testimony given today, the subcommittee welcomes the statements of other individuals and groups. The record will be open for 2 weeks to receive such written statements.

With that, I would like to welcome our first witness of the day, Congressman Bob Young of St. Louis County. But first, Senator Pressler, do you have any remarks?

OPENING STATEMENT BY SENATOR PRESSLER

Senator PRESSLER. Mr. Chairman, I have a brief opening statement.

Today, this subcommittee will take a close look at several Federal programs which have provided Federal assistance for railroad rehabilitation and restructuring. I want to thank the chairman for calling these hearings in a timely fashion, and I look forward to hearing testimony from the Federal Railroad Administration and the private sector on title V funding.

Mr. Chairman, 10 years ago the Congress and the country faced a very serious problem. Several major railroads were in desperate financial and physical condition. There were many reasons for the rapid deterioration of our Nation's rail system, but one point was clear. Congress had to act quickly and definitely to stop the very real possibility of massive loss of rail service across the country.

Beginning with the Regional Rail Reorganization Act in 1973, Congress passed a series of measures during the 1970's and early 1980's to reorganize Government rail policy. In the Railroad Revitalization and Regulatory Reform Act of 1976, Congress put together a package of financial assistance programs to address the twin problems of bankruptcy and abandonment. Several amendments were also passed to broaden and redirect the title V assistance programs.

As a member of this subcommittee, I played an active part in some of those changes, including the provisions governing eligibility of noncarrier entities for 505 funding and the prioritization of 505 obligations for bankruptcy carriers.

I believe today's testimony will demonstrate the importance of 505 funding as a crucial component in solving the rail transportation crisis. Today's hearing should be viewed in this historical context as another congressional effort to assess the rail industry's economic health and to determine what legislative action is necessary to remedy existing problems.

Mr. Chairman, my home State of South Dakota was particularly hard hit by the Milwaukee Road's bankruptcy proceedings, which began in 1977. South Dakota has lost almost 1,800 miles of rail line, or nearly 65 percent of its total service. This has had a devastating economic impact. South Dakota's agricultural community greatly depends on rail transportation. Major regional utility companies providing electricity for the State rely heavily on efficient coal transportation by rail.

After several years of difficult and complicated negotiations, my home State is on the verge of an agreement which would preserve an essential main line and over 700 miles of core branch line service. As we will hear in today's testimony, this solution would have been impossible without the help of 505 funding.

Congress did not intent that either section 505 or section 511 provide a permanent subsidy for rail service. But Congress was determined to provide interim but critically necessary support as the American rail industry made the transition from an overbuilt, underutilized 19th century system to a streamlined, cost effective, technologically sound system which could meet America's transportation needs as we moved into the 21st century.

I am not convinced that the transition is complete, and it is the duty of the subcommittee to determine what Federal assistance will continue to be needed. Congress has a serious obligation to assess the situation carefully. In the rush to cut the budget, we must not ignore the very important role played by section 505 funding.

At the same time, the subcommittee actively seeks suggestions and recommendations to improve the program's efficiency and responsiveness.

Again, Mr. Chairman, thank you for calling these hearings. I look forward to listening to the testimony regarding 505 funding.

Senator DANFORTH. Congressman Young, good to have you here.

STATEMENT OF HON. ROBERT A. YOUNG, U.S. REPRESENTATIVE FROM MISSOURI

Mr. YOUNG. Mr. Chairman and members of the Surface Transportation Subcommittee, I want to thank you for the privilege of allowing me to testify here early on Monday morning relative to the St. Louis Metro Area Rail Gateway Enterprise, MARGE. I will address myself to the continuation of preference share financing as it relates to the impact of the project on the economy of the St. Louis metropolitan area.

Mr. Chairman, the St. Louis Rail Gateway has long been a bottleneck to the flow of goods across the Nation to the Midwest. For a number of years now, the affected railroads, the States, and the Federal Government have sought to improve rail operations in this, America's second largest rail terminal. These efforts met with significant success last year when the Transportation Conference Committee agreed upon a $5 million appropriation to complete preliminary engineering work on the MARGE project.

While the strategy for funding this railroad restructure project does rely very heavily on assistance from the Federal Government, we have always recognized that the railroads themselves must not only back the project, but must support it financially. However, as we all know, the ability of the railroads to raise capital from private sources for rehabilitation and restructuring projects is extremely limited. Accordingly, the railroads' ability to raise the necessary capital to invest in those projects is an essential part of the funding strategy.

As you know, the preference share financing program, defined by section 505 of the Rail Revitalization and Regulatory Reform Act of 1976 allows the Federal Government to purchase preferred stock in railroad corporations to finance projects designed to rehabilitate or replace rail facilities damaged by deferred maintenance, such as the St. Louis rail terminal.

The railroads must buy back these preference shares over 30 years, with the payback equaling 150 percent of the original amount. A 10-year grace period is provided before this repurchase begins, leading to an effective interest rate of 2.03 percent.

I believe this is an important method of obtaining needed capital for the restructuring project and wholeheartedly endorse its reauthorization when the current program expires at the end of this year.

However, Mr. Chairman, I am not here today to tell you of the ability of the railroads to raise capital for restructuring projects. I am sure you have many fine spokesmen here today to testify to that fact. Rather, I would like to address myself to the economic impact this project has on the St. Louis metropolitan area, a good part of which I represent.

It is clear that this project serves the national interest and has significant public benefits, both through freeing land for desperately needed redevelopment in the St. Louis area and for improving the critically important transcontinental movement of goods and material. In many instances, these kinds of benefits are difficult to quantify because of the complex nature of the movement of goods and the distribution of economic benefits associated with improvements in transportation.

However, I believe we can quantify some of the benefits of this project. One, first, the proposed rail restructuring would reduce delays to a minimum and increase terminal capacity to meet the growing traffic demand. The existing rail system results in an average travel time of 46 hours to move a rail car through the St. Louis area. Railway officials have estimated that this travel time will be reduced to 29 hours with a corresponding savings of millions of dollars in consolidated operations once the rail relocation work is completed. This would reduce costs to the railroads, shippers, and ultimately to consumers nationwide, and would alleviate national and regional rail car shortages through more efficient utilization of existing equipment.

Further, the project would improve traffic flow of coal, grain, petroleum, and manufactured goods, which are very important to the economic strength of the Nation. Over 26 million tons of coal, petroleum, and their products, and 9 million tons of farm products and foods underscore the Gateway's importance to our energy and agricultural strength, while the volume of durable goods points toward the Gateway as a distribution focal point of the Nation.

Each of these commodities and others rely greatly on efficient rail transportation. Since rail and rail intermodal shipments comprise 60 percent of all commodity movements to and from the Gateway, the proposed restructuring will have a substantial impact on these shipments.

In light of the importance of rail and rail intermodal shipments, I would like to point out that almost directly across the river from the MARGE project is the St. Louis North Riverfront Port Renovation and Development. This port development on the west side of the Mississippi River is to a large extent contingent upon efficient rail service on the east side.

I say this because all the truck terminals are on the westside, while all the rail terminals are on the east side. And as the truck terminals are improved for greater capacity and efficiency, it becomes necessary to improve the rail facilities. Otherwise, the intermodal shipment transfers from truck to rail are hopelessly bottlenecked.

Mr. Chairman, I would like to point out that for this same reason, it is necessary to improve the St. Louis downtown bridges. Goods cannot be transferred from truck terminals on the east side without adequate bridge facilities. I have introduced legislation in

the House, and I would be happy to provide a copy to this committee, which addresses this bridge problem, but let me make it clear that the infrastructure is in place, with the north riverfront port development, the downtown bridges, the Interstate System, and the East St. Louis railyards, to make the St. Louis Gateway an efficient and productive intermodal transfer and shipment center.

Further, among the reasons I feel this project is so necessary is that it would provide important investment in both East St. Louis and the whole Metropolitan St. Louis area. During the period of 1958 to 1981, over $1 billion has been spent in the 25-square-mile St. Louis downtown central business district for building expansion. That same period saw the completion of 51 buildings and 9 million square feet of office space. During 1981, over $414 million of new investment was placed or under construction in the downtown St. Louis area.

Continuing investment in the downtown business district is contingent upon adequate interstate and regional access, particularly through rail and rail intermodal shipments of which I spoke earlier. Hence, this rail restructure is a major factor in sustaining current levels of downtown and related metropolitan economic investment.

Finally, among the reasons why this railroad project is needed is the fact that when completed, the project will eliminate rail/highway crossings, which would lessen both delays to vehicular traffic and reduce train/vehicular accidents. It is estimated that the proposed grade separation structures would save motorists at least 5,000 days for the year 2000 and would contribute to rapid delivery of emergency services such as ambulance, fire, and police.

In conclusion, let me say that I believe that nowhere in the United States is there a greater potential opportunity for improving rail operations and freeing vast acres of land near the heart of a major metropolitan area than in the St. Louis metropolitan area. I am in full support of this project, and believe that its national importance dictates a strong Federal involvement.

With appropriations currently available, and with continued preference share funds earmarked for this project, I believe that a substantial part of this vital project can be completed in the near future, bringing the first benefits of the project to the St. Louis metropolitan area as well as to the region and the Nation.

Senator, as you are so well aware, the importance of the East Bridge when it was built in 1974 in the development of the West, I think, cannot be underscored too much.

I do want to thank you for allowing me to make this statement this morning, and we will do everything we possibly can in the House to try to get this project moving along.

Senator DANFORTH. Congressman Young, thank you very much. You have been interested ever since you have been in the Congress in the whole subject of what we can do to encourage economic growth in the St. Louis area. How important in your mind is this particular project to the overall growth and development of St. Louis?

Mr. YOUNG. Senator, I know there is a lot of times controversy between the different transportation modes, but I think that what is going on in that metropolitan area, with all modes of transporta-

tion—I am privileged to be a member of the House Transportation Subcommittee, and I just think the movement of any of the goods in this area is just vital to the whole of this country.

I realize that there are controversies now as it relates to the ability to finance these major projects, but I think everybody is willing to do their share, and I think that these things are so big, so enormous that it just cannot be done municipality by municipality, and there has to be some sort of Federal involvement in it.

As I indicated to you Saturday at the St. Patrick's Day parade, I will do what I can as one member to try to come down on something that is equitable, so that these important things for the country can move ahead.

Senator DANFORTH. I think that it is important to point out that this is obviously a time when we are trying to save money for the Federal Government. Budgetary concerns are obviously very important. But at the same time we are trying to save money, we are also trying to spur economic growth. That was the reason for the so-called supply-side tax cut. It was not just an effort to throw away Federal revenue, but it was an effort to try to stimulate growth in the private sector. The same test that was used for the supply-side tax cut, that is throwing money away, can be applied to Federal spending.

It is your view, as I understand it, that this particular program happens to be a necessary ingredient in the growth not only of the particular congressional district which you serve, but in the whole St. Louis area, Missouri and Illinois, and in addition to that, in the movement of rail transportation across the country.

Mr. YOUNG. I think the coordination that you see with the congressional delegation, I think, is very, very close on issues like this, and I just do not know hardly anything that there is not pretty much of an agreement on between the Members from the House and Members from the Senate. I do not know if the mayor of East St. Louis is here yet, but I think the tremendous potential impact of the Illinois section of this just cannot be overlooked.

I think it is a scenario that can surely help reduce the unemployment and hopefully get people back off the public rolls and back to private industry.

Senator DANFORTH. All right.

Senator Pressler?

Senator PRESSLER. No questions. Thank you very much.

Mr. YOUNG. Thank you, Senator.

Senator DANFORTH. Thank you very much.

The next witness is Robert Blanchette, Administrator of the Federal Railroad Administration.

STATEMENT OF HON. ROBERT BLANCHETTE, ADMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION

Mr. BLANCHETTE. Mr. Chairman, Senator Pressler, good morning.

I know you have a very distinguished and large list of witnesses, so I shall attempt to be brief.

By your leave, I would like to ask if the written statement that we have prepared be put into the record of these proceedings, as

well as two statements [1] which I asked be incorporated, a submission to the Congress dated February 12 and a submission to the Congress dated February 23, which I refer to in my testimony.

Senator DANFORTH. Without objection, your statement will be placed in the record.

Mr. BLANCHETTE. In the statements, we trace the historical perspective of sections 505 and 511. I must say that that perspective is probably not very credible on my part. Anybody who represents the executive branch and appears before the Senate on the ides of march is probably not conceived of as a student of history.

Nevertheless, the thrust of the testimony is that we presently have in section 505 a residue of $128.9 million. We are just about at the point where we can commit all of those funds, and we see therefore the end of the horizon for section 505. In the case of section 511, I think we are—history has already occurred on that. We basically see no applications for loan guarantees, and the economic reasons for that are alluded to in my testimony.

Essentially, therefore, we have a series of projects which we believe we can fund. We have the resources to fund it. We are very helpful that we can obligate these funds in fiscal year 1982, and notably, for example, in South Dakota, the Miles City Line, we are very close to having an accommodation there, and our target, and I think it is both a target and a discipline, is to obligate this $129 million this fiscal year. If we fail for reasons beyond our control to do so, we will seek the appropriate relief before the Congress.

That constitutes the summary of my testimony, Mr. Chairman. I should be pleased to answer any questions.

Senator DANFORTH. Mr. Blanchette, you say it is your intention to obligate the preference share funds that Congress has earmarked this year.

Mr. BLANCHETTE. Yes, sir.

Senator DANFORTH. Supposing that you were unable to do that.

Mr. BLANCHETTE. If we are unable to do it for reasons which are not in our control, but the projects are still viable, and it is a question of timing or of the law's delay—we are involved in at least one case in a railroad reorganization—but if the projects are otherwise viable, and it is fortuity that the funds cannot be obligated, then we would recommend a carryover so that these projects, all of which are meritorious, can be brought to consummation.

Senator DANFORTH. In 1983?

Mr. BLANCHETTE. Hopefully in 1983. Some of these, I must say, Mr. Chairman, depend on the conclusion of negotiations with the trustee of the Rock Island in one instance with the Milwaukee, and sometimes you can have a deal which has been concluded on the negotiation side, but it requires court approval, and that might spill over beyond this fiscal year, but I would be loathe now to let the discipline relax, because I think it is good for all of the parties to have a target date.

Senator DANFORTH. You heard Congressman Young speak of the St. Louis Gateway project, and other witnesses will testify to their views on that project. What is your position on the merits of the St. Louis Gateway project?

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[1] These are in the committee files.

Mr. BLANCHETTE. We think it is a meritorious project. Congress has appropriated or authorized $20 million in preference shares and $5 million in research. We are presently talking to the railroad applicants—actually, there is one applicant, the TRRA, but it is supported by the railroad stockers—to see if we can come up and present a cogent financial package.

If we do that, we would be amenable to reprograming the $5 million which is a research grant into the preference stock application, again with the consent of the Congress, so that that would make a fund of $25 million available for that project. That plus the synergism of the private sector, we believe, can bring off at least one of the two projects which seem to be candidates for Federal assistance, and we are currently in negotiation and conversation not only with the railroad subscribers to the TRRA, but as well with the Illinois Department of Transportation, which has been one of the leaders in bringing this project to the forefront.

Senator DANFORTH. Senator Pressler?

Senator PRESSLER. Yes, Mr. Blanchette, you have already mentioned the South Dakota application. As you know, South Dakota has made application for $30 million in 505 funding which would be used to rehabilitate the Miles City Line to be purchased from the Chicago, Milwaukee, St. Paul, and Pacific Railroad Co. What is the status of that application, and what time table do you foresee for final processing of that application?

Mr. BLANCHETTE. There has been an accommodation reached between the Burlington Northern and the State of South Dakota, acting through Governor Janklow, who again has been at the forefront of that project from the State interest back there as well as yourself, obviously, and Senator Abner. We believe that the deal has been cut, so to speak, and that agreements can be put into place so that by June or July we will have the funds obligated, the entire $30 million.

There is also an application that is related to it from the Milwaukee for $6 million, and assuming the Miles City application can be obligated, we will be cheerfully awaiting the application of the Milwaukee Railroad for an extension of that line.

Senator PRESSLER. Recently, the State of South Dakota and Governor Ogilvie of the Milwaukee Road announced that they had agreed in principle to the sale of the Miles City Line. As we have already said, the State plans to rehabilitate the line with preference share funding, and ultimately to transfer it to the Burlington Northern.

Some Members of Congress have suggested that the preference share funding and the sale should be made conditional on congressional approval. What are your views on changing the rules on ther preference share funding for this project at this time?

Mr. BLANCHETTE. Well, I am sensitive to the question of bringing the matter back to the Congress. This matter has been, however, to the Congress on several occasions, both in the authorizing committees and in the appropriating committees. We have spent an awful lot of time and effort and energy, as you know, Senator, and I could not really recommend the need to go back for another imprimature, this matter having been carefully considered by both Chambers of the Congress over the last several years.

Senator PRESSLER. Thank you very much.
Senator DANFORTH. Thank you, Mr. Blanchette.
[The statement follows:]

STATEMENT OF HON. ROBERT W. BLANCHETTE, AMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION

Mr. Chairman, and members of the Subcommittee, I am pleased to appear before you today to examine the programs of financial assistance under Title V of the Railroad Revitalization and Regulatory Reform Act of 1976 (4R Act), and to address future policy and program direction regarding such assistance.

On February 12, we provided the Congress with an evaluation of the Title V program as requested by the Conference Report accompanying the Department of Transportation and Related Agencies Appropriation Act for fiscal year 1982. In addition, on February 23, Congress received the Secretary's annual report on railroad rehabilitation and improvement financing. I ask that these reports, which provide details of the individual work projects funded under the preference share and loan guarantee programs, be incorporated in my statement by reference and that they be inserted in the record of these hearings. For convenience, I have set forth in an appendix to this statement summaries from the annual report of the federally assisted projects to date under Title V.

Financial assistance provided to the railroads has contributed to the overall health of the industry and other statutory goals of the 4R Act. Title V assistance has helped relieve serious railroad problems requiring immediate attention. Most of the funding has been awarded to bankrupt and marginal railroads which, as a result of the funding, have been able to rehabiliate plant and equipment and to improve services. Important segments of the Nation's main line rail network have been preserved and improved. Assistance has been made available where private commitments could not be obtained, thus allowing investment in the rail system which otherwise would not have been made.

The conditions and requirements of the rail industry today, however, differ from those of the mid-1970's when the Northeast rail system was in bankruptcy and segments of the Midwest rail system were heading in the same direction. The railroad industry is showing new trends of vitality that attenuate the need for a standby program of Federal financial assistance. The trend is reflected in the drop-off of applicants seeking Title V funding for major projects and in the progress being made by some railroads in regaining access to private capital markets. We are pleased to note, for example, that the Chicago and North Western Transportation Company, which initially applied to the Federal Railroad Administration for financing for its Powder River Basin Coal Line Project, subsequently found funding for the project from private sector sources.

Contributing to the improved industry status are the new economic and financial tools of self-help provided by the Congress, notably the marketing freedoms provided in the Staggers Act. Railroads are currently experiencing a cyclical downturn, but over the long-term we see expanding rail markets, particularly in coal and grain, which can provide growth in traffic, revenue and earnings.

It is in light of the trend toward a stronger private sector rail freight system that the Administration proposes termination of the 4R Act assistance programs.

TITLE V PROGRAM STATUS

Tables 1 and 2, below, segregate the Title V funding to date, by type of project and by railroad, respectively.

TABLE 1.—TITLE V FUNDING (OBLIGATIONS/COMMITMENTS) BY TYPE OF PROJECT AS OF MARCH 15, 1982

[In millions of dollars]

	Preference shares	Loan guarantees
Rehabilitation of track and facilities	464.4	39.5
Freight car and locomotive repairs		133.2
Labor protection (Milwaukee Road)		[1] 75.0
Directed service [2]	5.9	
Total	470.3	247.7

[1] $38.7 million drawn down.
[2] Pursuant to section 104(b)(1) of the Rock Island Railroad Transition and Employee Assistance Act.

TABLE 2.—TITLE V FUNDING (OBLIGATIONS/COMMITMENTS) BY RAILROAD AS OF MARCH 15, 1982

[In millions of dollars]

	Preference shares	Loan guarantees
Chicago, Milwaukee, St. Paul & Pacific RR. Co	52.7	115.7
Chicago & North Western Transportation Co	147.5	70.2
Chicago, Rock Island & Pacific RR. Co	1.8	22.9
Delaware & Hudson Railway Co	4.7	8.9
Columbus & Greenville Railway	8.9	
Illinois Central Gulf RR. Co	166.5	
Boston & Maine Corp	26.0	
Peoria and Pekin Union Railway Co	5.7	
St. Louis Southwestern Railway Co	48.5	
Hooper-Myron Corp	2.1	
Missouri-Kansas-Texas RR. Co		22.5
U.S. Railway Association/MKT		7.5
Directed service	5.9	
Total	470.3	247.7

Title V's redeemable preference share financing has been principally directed toward overcoming deferred maintenance on mainline trackage with high density freight volumes—such as the Chicago-Milwaukee, Chicago-New Orleans Chicago-Omaha and Boston-Albany corridors. In the preference share program, a total of $1.4 billion has been authorized by Congress; $599.2 million has been appropriated; $470.3 million has been obligated to approved projects; and $128.9 million is presently available for obligation. Legislative authority for funding the preference share program is scheduled to expire on September 30, 1982.

The loan guarantee financing has funded freight car and locomotive repairs, as well as track rehabilitation and labor protection payments by the Trustee of the Milwaukee Road. Of the $1 billion authorized for loan guarantees, only $247.7 million has been committed. Even with the Government's full backing, the prevailing interest rate for federally guaranteed obligations is still too high to make this an attractive investment vehicle, and it is unlikely that any significant level of meritorious applications for Title V guarantees will be submitted to FRA in fiscal year 1982.

In the aggregate, the Title V program has financed rehabilitation of an estimated 2,900 miles of track, 148 locomotives and 11,163 freight cars. While the initial emphasis of the title V program was upon rehabilitation of high density mail lines, the program has also been of service to a number of smaller railroads with more specialized requirements and has served as a tool for resolving major rail crises in the Midwest without resorting to public ownership.

GUARANTEES FOR LABOR PROTECTION PAYMENTS

A matter that is pertinent with respect to the aid for the Midwest rail system involves the Title V loan guarantees for funding employee protection payments. The

Milwaukee Trustee has been provided with $38.7 million out of $75.0 million authorized in the Milwaukee Railroad Restructuring Act to assist in meeting the employee protection costs of the railroad's restructuring. The account is active. According to the Trustee, an additional $23.8 million in drawdowns may be required. Similar funding was authorized by the Congress for Rock Island employees in the Rock Island Railroad Transition and Employee Assistance Act. The Supreme Court of the United States, however, has held that the approach in the Rock Island legislation is unconstitutional. We are examining what effect, if any, the Rock Island ruling may have on the funding committed to the Milwaukee Trustee.

PROSPECTIVE FUNDING

Mr. Chairman, the call for this hearing requested that I discuss available funding and the adequacy of existing funds to meet pending and expected applications.

As shown in Table 3, which follows, through Congressional action, most of the $128.9 million in available funds for preference share financing have been restricted for use on designated projects, primarily in the Midwest. These projects include acquisition and rehabilitation of lines on the former Rock Island system. Congress also had earmarked funds for rehabilitation of the Milwaukee's Miles City line, on which a utility—serving the State of South Dakota as well as significant portions of its neighboring States of Montana, Minnesota and North Dakota—depends exclusively for coal delivery service. Additionally, funds have been reserved for terminal and yard improvements in East St. Louis and Kansas City.

Although only $900,000 of $128.9 million is free of statutory or legislative report controls, I am not aware of any additional requests for financing of major projects that may be forthcoming. However, in the East St. Louis situation, we are consulting with railroads serving the St. Louis are, in order to establish the scope of the terminal improvement project for which Congress allocated funds in fiscal year 1982 and to combine already appropriated public financing with private funding for the project.

TABLE 3.—*Preference shares*

	Millions
Fiscal year 1981 (carryover):	
Rock Island Lines	$38.0
Miles City Line (Milwaukee RR	30.0
Uncommitted	.4
Subtotal	68.4
Fiscal year 1982 (new budget authority):	
East St. Louis [1]	20.0
Grain Route (Minneapolis/Kansas City)	15.0
OKT (Oklahoma/Kansas/Texas	11.0
Milwaukee Main Line	6.0
SSW/ICG Kansas City Yard	5.0
Feeder lines	3.0
Uncommitted	.5
Subtotal	60.5
Total	128.9

[1] The fiscal year 1982 conference report on appropriations earmarked an additional $5 million, within the railroad research and development appropriation, to be available in grants for East St. Louis project engineering. When the scope of the project is established, it may be advisable to reprogam these funds as preference shares supporting the total project.

At this time we do not have applications for all of the projects earmarked for funding by the Congress. In particular, a number of the applications are dependent on completion of negotiations with the Trustees of the Rock Island. While we will make every effort to obligate all of the remaining funds, some applications to be funded from earmarked appropriations may not be received or sufficiently processed to permit obligation of funds before September 30, 1982.

You have asked, Mr. Chairman, whether earmarkings are a problem. Ideally there should be no earmarking, and as a matter of policy, the Department opposes a mandated direction of discretionary funds. At this time, however, negotiations with the Rock Island Trusteee are proceeding based on these earmarkings. There should be no changes in earmarkings until those results are more fully known.

CONCLUSION

In summary, Mr. Chairman, financial assistance to the railroads should be made consistent with broader Federal policies and should recognize the trends we have observed toward the financial self-sufficiency of the industry.

No new meritorious applications for major projects are foreseen for correcting deferred maintenance on heavy density interstate rail lines.

Available funds will satisfy those meritorious projects of which we are aware.

There is no need for new budget authority to fund the section 505 program, nor are additional guarantees needed for the section 511 loan guarantee program. Railroads and users are now better able to resolve rail transportation problems without direct Federal financial involvement.

Mr. Chairman, that completes my prepared testimony and I would be pleased to answer any questions you or other Committee members may have.

APPENDIX 1

SUMMARIES OF FEDERALLY ASSISTED PROJECTS UNDER TITLE V OF THE RAILROAD REVITALIZATION AND REGULATORY REFORM ACT OF 1976

CHICAGO AND NORTH WESTERN TRANSPORTATION COMPANY (C&NW)

$148 million in preference shares and $6 million in loan guarantees for rehabilitation of the 600-mile Chicago, Illinois to Omaha, Nebraska line—September 1977/September 1982.

$64 million in loan guarantees for rehabilitation of 7,550 freight cars.

Preference share assistance for the rehabilitation of the C&NW line between Chicago and Omaha was awarded to enhance the C&NW's ability to provide essential freight services on an important east-west route on the national rail system and to improve C&NW's overall ability to serve as a major transcontinental rail link between eastern and western rail carriers. The guarantee assistance for the repair of freight cars is benefitting shippers by making needed equipment available and aiding the railroad in retaining current traffic and generating new traffic.

Safety and efficiency changes related to the improved condition of the physical plant include:

Increased traffic density from 48 million gross tons per mile (MGT/M) in 1977 to 61 MGT/M in 1980 (27 percent increase);

Posted timetable speed limits as of May 1981 of 60–70 mph vs. 40 mph or less at start of project;

Elimination of all temporary slow orders;

Reduction of route transit time by 25 percent;

Elimination of track-caused detrailments; and

Reduction of the equipment bad order ratio from over 15 to less than 10 percent.

ILLINOIS CENTRAL GULF RAILROAD COMPANY (ICG)

$166 million in preference shares for rehabilitation of segments of the ICG's 905-mile main corridor route between Chicago and New Orleans—September 1977/September 1982.

Preference share assistance for the rehabilitation of segments of ICG's main corridor route between Chicago and New Orleans was awarded to enhance the ICG's ability to provide essential freight services on an important north-south route of the national rail system. The route serves heavy movement of chemicals north from Louisiana, grain to the Gulf ports and coal from the Midsouth to Chicago.

When completed in 1982, the rehabilitation is expected to permit freight train speeds of 60 mph in the 750-mile sector between Chicago and Jackson, Mississippi, accommodate higher traffic densities and enable the ICG to reduce its system mileage. Anticipated project benefits include reduced maintenance-of-way and per diem expenses, reduced derailments and accident claims and improved traffic operations with less transit time.

Interim benefits of the assistance which can be identified to date include:

Increased traffic density to 33 MGT/M (25 percent) where traffic has been rerouted;

Speed limits in excess of 40 mph;

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[1] Source: *Annual Report to the Congress on Federal Financial Assistance for the Rehabilitation and Improvement of the Nation's Railroad System—Fiscal Year 1981,* February 23, 1982.

Estimated annual savings of $4.4 million attributable to lower locomotive and freight car expense;

Estimated annual savings of $8.0 million in accident related expense; and

Cost savings of $2.0 million per year for operations in the Jackson Yard.

BOSTON AND MAINE CORPORATION (B&M)

$26 million in preference shares for rehabilitation of the 153-mile east-west main line between Ayer, Massachusetts and Mechanicville, New York—1978/1981.

The assistance made available for the rehabilitation of the B&M line segment between Ayer, Massachusetts and Mechanicville, New York was awarded to enhance the B&M's ability to provide essential freight services in the strategic Boston-Albany corridor of the New England rail system. The line is the core of the B&M system. It provides service connections to the Delaware and Hudson, Conrail and the New England region traffic base.

The objectives of undertaking the Federally-funded track rehabilitation project on the B&M main line included the stabilization of operations at a level that would make B&M's operations competitive; bringing the maintenance cycle on the track structure up to a level the B&M could maintain; and the elimination of technologically outdated, high-cost maintenance items to maximize the efficiency of maintenance expenditures. To date, project benefits have developed as follows:

Track operations (as measured by speed) have stabilized and increased to 40 mph (except where restricted by track geometry or local ordinance);

Substantially all referred maintenance in rail and ties has been eliminated in the corridor and the B&M, with its own funds, has been conducting rail and tie maintenance on a normalized basis; and

Signal improvements associated with the project have permitted the retirement of 20 miles of redundant main line, while increasing capacity.

The program has been a key element in B&M's forthcoming emergence from bankruptcy.

MISSOURI-KANSAS-TEXAS RAILROAD COMPANY (MKT)

$22.5 million in loan guarantees for rehabilitation of segments of the MKT's 833-mile main line from Kansas City, Missouri to Houston, Texas—December 1976/August 1981.

The loan guarantee assistance to MKT to rehabilitate segments of its main line from Kansas City to Houston was awarded to enhance MKT's ability to provide essential services over a major system route vital to the movement of coal and grain in the region. The MKT route is the shortest route from Kansas City to Houston. A substantial portion of the route is used by the Missouri Pacific on a trackage rights basis.

The assistance was provided to enable MKT to provide safer, more efficient and overall improved service to shippers and to accrue financial benefits through improved ability to retain current business and generate new business. Federal funding has been instrumental in providing the MKT with a plant capable of permitting the railroad to serve traffic growth opportunities in its market. Without the improvements, the railroad would not have been in position to handle a major new movement of coal to a utility on its line.

The results to date have returned benefits in the following areas:

40 percent increase in traffic density over the route;

Lifting of temporary slow orders and attainment of operating speeds in excess of 50 mph;

Reduced derailment expenses contributing $1.7 million in savings annually;

Fuel savings contributing more than $2.2 million annually; and

Savings in labor and equipment rents amounting to more than $3.4 million annually.

CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY (MILWAUKEE)

$52.7 million in preference share financing to rehabilitate the 404-mile main line between Chicago and Minneapolis/St. Paul and the Wisconsin Valley Line—July 1977/September 1981.

$40.7 million in loan guarantees to repair 1,871 freight cars and 146 locomotives.

The track and equipment rehabilitation on the Milwaukee is assisting the Trustee in maintaining service over the most essential elements of the railroad; the rehabilitated line from Chicago to the Twin Cities is the central component of a reorganized core railroad proposed by the Trustee.

Track rehabilitated with Title V funds will continue to be used by the Milwaukee or by an acquiring railroad. Cars and locomotives repaired in the program will be used in the national freight system. While FRA has not yet commented on the viability of the Trustee's revised plan of reorganization, FRA believes that the funding assistance has had a desirable and long-term effect on the Milwaukee's service responsibilities. The assistance has aided in the railroad's transition without a "Conrail" type expenditure.

Project benefits experienced to date include the following:

Project line traffic density remains in excess of 21 MGT/M despite the reduction in services to the northwestern states and in the overall system;

Attainment of 50 mph speeds throughout the core system;

Estimated fuel savings of $2.0 million annually;

Elimination of track related derailments on the project lines;

Annual savings in track maintenance costs of $2.5 million annually; and

Reduction in equipment bad order ratios to 10 percent of less.

ST. LOUIS SOUTHWESTERN RAILWAY COMPANY (SSW)

$48.5 million in preference share financing to rehabilitate segments of the 550 miles of mair track from Topeka, Kansas to Tucumcari, New Mexico—September 1980/March 1982.

Preference share assistance for the rehabilitation of the Topeka to Tucumcari segment of the former Rock Island line from Santa Rosa, New Mexico to St. Louis, Missouri was awarded to enhance the SSW's ability to preserve essential freight services over a major transcontinental rail route and to reestablish the line as a competitor for transcontinental traffic to the benefit of the shipping public. The line competes for traffic from Chicago to California points with other routes operated by the Union Pacific and the Santa Fe.

Projected benefits of the rehabilitation program included a reduction in running time due to shortening of the SSW transcontinental route by 390 miles; reduced maintenance of way requirements; operating speeds in excess of 60 mph; reduced fuel consumption (10 million gallons annually); and recaptured or diverted traffic. To date, changes resulting from the rehabilitation are:

Daily trains operating over the line have increased from 2 to 4; and

Slow orders over the route have been reduced.

The project is a key factor in the strategy efforts of the SSW and the parent Southern Pacific system to compete effectively in interregional markets. The Federal funding for the project leveraged a commitment on the part of the railroad to match the $48.5 million investment in the rehabilitation of the line.

COLUMBUS AND GREENVILLE RAILWAY COMPANY (C&G)

$8.9 million in preference shares for the rehabilitation of C&G's 167-mile east-west line in Mississippi—October 1977/September 1983.

The C&G is a small carrier. However, it is a strategic element of the rail system in that it provides a competitive rail route for commodities shipped from the Mississippi Delta region of the nation. Additionally, it serves as an extension of the mainline, competitive rail systems of three large carriers with which it interchanges traffic. Because of the C&G, the region's shippers are not captive to the services and rates of a single rail carrier. Also, because of C&G's rail and intermodal interchange points, shippers have access to the national rail system and to intermodal carriers. The principal objective of the track rehabilitation program is to restore the C&G's ability to operate at speeds up to 30 mph and to handle heavier tonnage cars over the most important segments of its route.

DELAWARE AND HUDSON RAILWAY COMPANY (D&H)

$4.7 million in preference shares for the rehabilitation of segments of the D&H main line between Albany, New York and Montreal, Canada—October 1981/October 1982.

$8.9 million in loan guarantees for the refinancing of a purchase of 20 locomotives.

The preference share and guarantee assistance for the D&H is helping the D&H to maintain rail services while a long-term solution for operation of the railroad is worked out.

D&H has been struggling to survive as an independent carrier as an alternative rail connection to Conrail between New England and Canada and the western and southern rail carriers. Preservation of the D&H is considered to be in the public

interest because the prospects for a solution to the railroad's problems are promising. Guilford Transportation Industries, Inc., a holding company created to acquire New England/New York railroads, has signed a letter of intent with the Norfolk and Western Railroad Company (parent) to purchase D&H. Such a purchase could lead to a creation of a New England-New York based rail system which would be at least potentially competitive with Conrail or any successor. The closing on the purchase transaction, if any, would not be expected before mid-1982.

PEORIA AND PEKIN UNION RAILROAD COMPANY (P&PU)

$5.7 million in preference shares for the rehabilitation of rail classification yard facilities in East Peoria, Illinois—November 1980/November 1982.

The P&PU is a Class II switching company which interchanges with 10 railroads. Preference share assistance for the rehabilitation of the P&PU's A and B classification yards is enhancing the P&PU's ability to provide essential freight services in the Chicago rail gateway. The improved condition of the yards will help relieve the congested Chicago rail gateway and will increase the P&PU yard capacity to accommodate traffic formerly switched by the Rock Island in Peoria, Illinois.

HOOPER-MYRON CORPORATION (HMC)

$2.1 million in preference shares for the acquisition of the abandoned 58-mile Milwaukee Road grain line from Hooper, Illinois to Danville, Illinois—July 1981.

RITEA[2] amended the Title V program (§ 505(h)) to provide funds for noncarrier entities to acquire and rehabilitate rail lines which otherwise are abandoned or liquidated in the Rock Island and Milwaukee railroad reorganizations. The Beaverville Grain and Lumber Company, a grain elevator, through its wholly-owned subsidiary, Hooper-Myron Corporation, was the first noncarrier entity to receive funding under Title V for such a line acquisition. HMC was provided $2.1 million in section 505 funds through the issuance of mortgage debt to acquire an abandoned 58-mile Milwaukee railroad grain line in Illinois. The line connects with the Louisville and Nashville railroad at Danville, Illinois, and a former Penn Central line being operated under subsidy by the State of Illinois. The acquisition resulted in service being restored to the 17 grain shippers who required access to the Southeast grain feed market, as well as continued service on segments of the Penn Central line which HMC continued to lease.

MILWAUKEE ROAD—EMPLOYEE PROTECTION

$75.0 million in loan guarantees to finance the funding of labor protection settlements for displaced Milwaukee Road employees as required.

The Trustee of the Milwaukee Road has been provided with $38.5 million out of $75 million in loan guarantees authorized under section 15 of the Milwaukee Railroad Restructuring Act to assist in meeting the employee protection costs of the railroad's restructuring. Similar funding was authorized by the Congress for Rock Island employees in the RITEA; however, the Reorganization Court and the United States Court of Appeals for the Seventh Circuit have ruled this approach to be unconstitutional and the issue in now before the Supreme Court.[3]

UNITED STATES RAILWAY ASSOCIATION/MISSOURI-KANSAS-TEXAS RAILROAD COMPANY (USRA/MKT)

$7.5 million in loan guarantees under which FRA assumed guarantees of obligations of MKT previously guaranteed by USRA—December 1980.

FRA refinanced an outstanding obligation of the United States Railway Association to the Federal Financing Bank originally incurred to provide MKT with funds for track work and other purposes. The effect of this refinancing was to transfer not only the guarantee of the MKT's obligation but also USRA's monitoring of MKT to FRA. The transfer permits simpler handling of various MKT Financing Agreement issues, including MKT reporting and waiver request procedures, and eliminates duplicative governmental functions in monitoring the railroad.

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[2] Rock Island Railroad Transition and Employee Assistance Act.

[3] Since the preparation of this Appendix, the Supreme Court of the United States held that the approach in the Rock Island legislation was unconstitutional.

CHICAGO, ROCK ISLAND AND PACIFIC RAILROAD COMPANY (ROCK ISLAND)

$1.8 million in preference shares for track rehabilitation work between Silvis, Illinois and Davenport, Iowa and between Allerton, Iowa and Des Moines, Iowa; consultant fees for a study of the economic and financial potential of the Rock Island.

$22.9 million in loan guarantees for locomotive and freight car repairs, rebuilding and construction; shop improvements.

Agreements were executed to make available to the Trustee of the Rock Island a total of $9.5 million in preference share assistance and $33.5 million in loan guarantees. Assistance actually provided to the Trustee consisted of $1.8 million in preference share funding and $22.9 million in loan guarantees. Funding was suspended following the Reorganization Court's order to liquidate the railroad.

Approval of the financing had depended upon the importance of the projects to a financially self-sustaining railroad system and FRA's ability to find adequate security in the property of the Rock Island to protect the investment of the United States. The funding decisions recognized that there was no sign of financial recovery for the Rock Island as a carrier entity.

Full satisfaction of amounts owning to the United States by the Rock Island is being pursued through the exercise of the Government's security interests and, to the extent necessary, such other means as permitted by law.

Senator DANFORTH. Next we have a panel consisting of John Kramer, the head of the department of transportation of the State of Illinois, and Col. Leonard Griggs, director of transportation, city of St. Louis.

STATEMENT OF JOHN KRAMER, SECRETARY, STATE OF ILLINOIS, DEPARTMENT OF TRANSPORTATION

Mr. KRAMER. Thank you, Mr. Chairman.

I have a statement for the record as well as statements from East St. Louis Mayor Carl Officer and numerous representatives of the St. Louis Rail Gateway area.[1]

The statements that we wish to submit to the record all express strong support for the continuation of the section 505 preference share program as well as strong support for restructuring and modernizing the St. Louis Rail Gateway. The fact that Colonel Griggs and I are here together, I believe, is a very eloquent statement of the unity of purpose which surrounds this project.

The States of Illinois and Missouri have not always been together on transportation projects. As the chairman knows, we have had a long history of disagreement which began with our being on opposite sides in the Civil War, followed by 10 years of disagreement as to where the first railroad bridge across the Mississippi River should be built, with the result that Chicago eclipsed St. Louis as the Nation's foremost rail gateway.

That has been followed in our more recent history by a lot of dispute of where the region's major airport should be, on which Colonel Griggs and I have taken opposite positions.

This, however, is a project on which we are in complete accord, not only the governments on both sides of the river, but the business and labor communities as well.

Mr. Chairman, you observed in St. Louis a few months ago that transportation is to the Midwest in general and to the St. Louis area in particular what oil is to Texas and sunshine is to Florida. That being so, let me say that the rail gateway is to our area what the Yates Oilfield is to Texas and Miami Beach is to Florida.

The rail gateway is the major transportation employer in the region. It generates more than 15,000 railroad-related jobs. It is our

[1] See p. 68.

cornerstone of strength in our industry, and it is a vital asset to the Nation's economy as a whole.

It has been said that when the St. Louis and Chicago rail gateways catch a cold, the rest of the rail system nationally catches pneumonia. Every time at harvest season when large volumes of grain need to move, we all hear complaints from our agricultural communities about thousands of rail cars being held up in St. Louis and Chicago. That seasonal phenomenon, I believe, extends throughout the year, and reflects, for better or worse, the fact that our two major gateways in Chicago and St. Louis do indeed function as the nerve center of the national rail system. Improving their efficiency, particularly in St. Louis, is one of the most important things we can do to give this Nation a rail system second to none, and a rail system than can and must remain in the private sector.

The project that we are here to support, which must include a preference share component, we believe, is central to that broader objective. As Congessman Young testified, we believe this project also to be the centerpiece of any comprehensive plan leading to the economic redevelopment of East St. Louis and the economic development of the entire St. Louis metropolitan area.

As you know, East St. Louis is one of the more depressed areas in this country. One of the reasons for its problems is that its most important resource, its Mississippi River front, has not been adequately utilized. There is a lack of good developable land on both sides of the river. The riverfront, comprising some 1,500 acres directly across from the St. Louis Arch, has been occupied since the late 19th century by rail yards that were built there before the bridges and served as marshalling facilities for ferries that transported railcars across the river.

This project will free up that riverfront land as well as making rail operations throughout the gateway considerably more efficient and considerably more economic.

After years of meticulous planning conducted by four Railroad Administrations under the terms of four different Presidents, by the 14 railroads serving the area, by governments on both sides of the river, and by the business and labor communities in the St. Louis area, we are at the point of being able to begin the project.

The work that we are proposing has three major components: the modernization of the region's principal classification facility, which will in turn allow several home yards occupying the riverfront to be consolidated into a modern, effective, and efficient facility; the reconstruction of an 84-year-old bridge which serves as the principal bridge in the country for transcontinental rail traffic; and the development of a common piggyback facility at the site of Conrail's Rose Lake yard.

These three projects taken together will, in my judgment, make an enormous contribution not just to efficient railroad movements in the St. Louis area, but to the movement of goods throughout the Nation. These three projects will also, in my judgment, form the cornerstone of a sound economic development program for the entire St. Louis area.

The key to bringing them off is the continuation of the section 505 program. The fact that we have so many railroads involved in St. Louis, the fact that several of those railroads are in marginal financial condition makes the kind of attractive financing offered

by the preference share program essential. What is being asked here is not a Government handout. What is being asked is low-cost financing which will be paid back with interest by the railroads on a project which in our judgment will contribute, as you suggested, Mr. Chairman, to the realization of the goals of supply-side economics.

If our Nation is to recover economically, surely a key part of that is efficient transportation. If the St. Louis area is to be the industrial heartland of the country, surely its role as a national transportation center and a national railroad center is central to that.

Finally, Mr. Chairman, we believe that if East St. Louis, if the metro east as well as the metro west sides of the river are to have an economy in which people can find work, then surely the economic development opportunities created by this project are central to that.

Thank you very much.

[The statement follows:]

STATEMENT OF JOHN D. KRAMER, SECRETARY, ILLINOIS DEPARTMENT OF TRANSPORTATION

I appreciate the opportunity to appear before this Subcommittee to present Illinois' views on the Section 505 preference share program. I especially thank Senator Danforth, chairman of the Subcommittee, and the other members, for scheduling this hearing. I am well aware of both the Subcommittee's and Senator Danforth's record of commitment to legislation strengthening the national rail transportation network.

I represent a state which is heavily dependent on rail transportation. In terms of rail mileage, Illinois ranks second in the nation, with 10,000 miles of track. This state is also the home of the nation's two largest rail hubs, in Chicago and in East St. Louis. I am, therefore, especially grateful for the Subcommittee's past work and continuing efforts in preserving a strong and viable rail transportation system.

One of the most important products of your efforts is the preference share program for rail rehabilitation and restructuring projects. Established under Title V of the Railroad Revitalization and Regulatory Reform Act of 1976, approximately $550 million of the $1.1 billion originally authorized have been committed. The program is due to expire on September 30 of this year. However, Senator Pressler and Senator Danforth have introduced a bill to provide for continuing the program. We agree that it should be continued, albeit at a somewhat reduced level. The State of Illinois, as well as the business and local government community in the East St. Louis and St. Louis areas, have a particular interest in this program. As you know, a multi-year rail restructuring project in East St. Louis is taking off this year, and preference share funding is of key importance to the project.

MARGE Project Summary

The St. Louis Metro Area Rail Gateway Enterprise, or MARGE, project involves large-scale restructuring of rail facilities in the nation's second largest rail freight hub. It is aimed at reducing one of the worst rail freight traffic bottlenecks in the nation and at improving the Gateway's capacity to handle its immense volume of traffic. The project will also create opportunities for economic redevelopment and reduce highway/rail crossing conflicts.

Although the 14 railroads operating in the Gateway have had a long-standing interest in this project, preference share funding is the necessary catalyst to get construction underway and to keep the project going. Several of the railroads whose financial condition is marginal require preference share funding in order to participate in the project. Since the project will create substantial public benefits, in addition to benefits for the private railroads, public financing assistance in the form of preference shares is both appropriate and necessary. The preference share program has been an important unifying element in bringing together the many railroads and other private investors to commit themselves to this project.

We now have concrete proposals for the first two construction stages, estimated to cost $120 million. These two stages can stand as independent segments of the whole project. They involve:

- rebuilding and modernizing the major common classification yard in the Gateway (the Terminal Railroad Association's Madison Yard), which includes consolidating four to six separate rail yards into that common yard;

- completely replacing the superstructure of Merchants Bridge across the Mississippi, a key link in the east-west movement of transcontinental rail freight; and

- constructing a regional Trailer-on-Flat-Car (TOFC) yard at the site of Conrail's existing Rose Lake Yard, which will allow four to five railroads to consolidate the truck/rail interchange traffic at one location.

The rail restructuring project would also free 1,500 acres of underutilized Mississippi riverfront properties for economic redevelopment, and it would reduce rail/highway crossing problems in the Gateway area. Many of the existing riverfront rail yards are obsolete, resulting in significant amounts of land occupied by abandoned or little-used rail facilities. Consequently, railroad properties are not yielding tax revenues consistent with the amount of land they now occupy. Also, the widespread presence of rail yards and connecting lines has led to a contorted street and highway system in the St. Louis area in general and in the East St. Louis area in particular. Approximately 50 crossings of major streets are subject to frequent interference from freight-train and switching movements, causing significant losses in travel time to motorists and creating substantial safety problems.

Getting the project ready has been a triumph in itself. It has involved long and hard work and commitment from many diverse groups to come to an agreement on the direction of the project. Today, the project enjoys solid support from the local business and labor community as well as from all levels of government.

The FY 1982 appropriation of $20-30 million in preference share funds for MARGE was a key step after more than a decade of planning and preparing. The State of Illinois, the City of St. Louis and St. Louis County have collectively invested $5 million during that period, matching $2.3 million from the Federal Railroad Administration.

Future Need/Benefits of Program

The continuation of the preference share program is critical to the future progress of the MARGE project for two reasons. First, the availability of preference share funding assistance has been and will continue to be the single most important incentive to convert the railroads' support for the project into an actual commitment to invest. Second, the financial condition of several of the 14 railroads located in the Gateway would exclude them from participating without access to preference share funding assistance. In short, further progress on the MARGE project beyond this fiscal year depends on continuing the preference share program.

The $20 million in preference share financing received so far in FY 1982 will enable initial construction to begin this year. However, we will be seeking a supplemental appropriation to fund additional stage one work that can be put into motion this year. For FY 1983, we will need from $30-55 million in preference share funds, depending on the amount of supplemental FY 1982 appropriation. This funding level will enable the project to begin the second stage of construction.

Aside from the need to continue the program, preference share funding for the MARGE project is an appropriate and sound investment of federal resources. Preference share funding assistance is not a handout to the railroads but a low-interest loan that will be repaid.

Preference share funding for MARGE will mean indirect repayments as well, because it helps fund a project generating nationwide benefits, some of which will ultimately result in more tax revenues. The project will substantially reduce railroad operating costs, shipping costs and pass-through time of rail freight traffic by eliminating the country's most serious rail traffic bottleneck, affecting the movement of over two million rail cars annually. By the year 2000, the number of rail cars should nearly double and the time required to pass through could rise to 46 hours if no restructuring is undertaken. The restructuring project will shorten the pass-through time for rail cars to 29 hours and will result in rail operating cost savings of $156 million a year. From the project's first two stages alone, the railroads and consumers will save more than $20 million a year. That is a lot of money to reinvest in more productive, tax-generating endeavors.

As I mentioned previously, the consolidation of yards, track and other facilities will free up a sizeable strip of prime Mississippi riverfront land for economic and community development in one of the nation's most depressed urban areas. The combined result of investing federal preference funding in the MARGE project will thus be an improved and strengthened national rail freight hub and a revitalized economy in the Gateway area. Particularly for East St. Louis, this project provides a much needed opportunity to enhance the area's attractiveness as an industrial location.

The MARGE project is just beginning; its future is tied to continuing preference share funding assistance. The program has already played a significant role in restoring rail freight transportation by providing low interest loan assistance for projects to reduce the backlog of deferred maintenance and to restructure outdated and inefficient routes and facilities. Let me point out some of the successful applications of this program.

- The Southern Pacific Railroad, which purchased 544 miles of the former Rock Island main line between Topeka, Kansas, and Tucumcari, New Mexico, undertook a massive $97 million rehabilitation project, half of which was financed through preference shares. This provided jobs for 300 workers, many of them former Rock Island employees.

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- The Illinois Central Gulf (ICG) Railroad Company has been able to rehabilitate portions of badly deteriorated track on its Chicago-New Orleans main line with $166.4 million in preference share funding. The project, which will be completed this year, already has vastly improved the quality of service for grain transports from the Midwest to the Gulf export market and for south-north shipments of chemical products. In addition, preference share assistance has been an important element in improving ICG's financial viability.

- A number of smaller projects to preserve essential service over lines by the bankrupt Milwaukee Road and the Rock Island railroads have also been financed by preference share funding and turned into financially viable operations.

The need for this program nationwide continues to be great, as demonstrated by the number of applications still pending before the Federal Railroad Administration. In the case of the MARGE project, preference share funding offers a unique opportunity to maximize the scope of the program's benefits. The St. Louis Gateway is the second largest rail freight hub in the nation, and any improvements in rail operations there will have a wide impact on freight movements across the country. Also, preference share funding for the MARGE project will benefit not one, but 14 railroads, thereby heightening the program's contribution to the economic revitalization of the rail freight industry.

I am well aware of the pressures on Congress to reduce federal involvement in all areas, including rail transportation. The task you face is indeed difficult, given the climate calling for federal retreat.

However, as I have tried to point out, there are some strong reasons for giving the program another lease. Let me conclude by summarizing the major principles and strengths underlying preference share funding.

- Unlike funds from federal grant programs, preference share funds must be paid back at approximately one and a half times their original value.

- The nature of the program specifically limits the federal role because it only provides assistance to projects which have the full commitment of the railroads or other private or non-federal investors.

- Preference share funding reinforces partnerships between the federal government and private or local, grass roots initiatives.

For terminal restructuring projects, such as the one in St. Louis, the preference share program provides an essential incentive to obtain agreement among and commitment by large groups of highly competitive private companies to correct critical bottlenecks in the national rail transportation system.

I hope my comments have been helpful in guiding your deliberations. Again, I thank the members of this Subcommittee, including its chairman, Senator Danforth, for their time and willingness to hear our views on this important issue.

Senator DANFORTH. Senator Dixon, glad to have you with us. Would you like to make a statement?

STATEMENT OF HON. ALAN J. DIXON, U.S. SENATOR FROM ILLINOIS

Senator DIXON. Mr. Chairman, may I simply apologize to my good friends, Colonel Griggs and John Kramer, for being a moment late. My aide had called me and told me to come right over here, and I did, but the junior Senator from Missouri operates so swiftly that I was unable to have the pleasure of introducing to him my warm friend, the director of the transportation department in our State, John Kramer, who, I am sure, comes to use with the kind of outstanding reputation that requires no introduction here.

Let me say that he is an old and dear friend who has done an outstanding job in our State under several Governors. We are all very proud of him, and I warmly endorse all of his remarks here.

I do not need to introduce my good friend, Colonel Griggs, to you. You know him perhaps better than I. He has done an outstanding job at Lambert Airport, though I share the view of Secretary Kramer with reference to that issue. We will not debate that here, but may I say that it is delightful, Senator Pressler, to introduce to you John Kramer, who does an outstanding job in our state. We are very proud of him. I also want to take the opportunity to say that there is an old friend in this room, that I had the pleasure of working with when I was a member of the Illinois State Senate. Gov. Dick Ogilvie is out there in the audience, and it is my pleasure to also welcome him here to this committee this morning.

Mr. Chairman, I thank you for your warm support of this project, which will serve both of our States so well, and thank you for letting me come here this morning to recommend to you John Kramer.

Mr. Chairman, I do have a statement here—I am not going to burden you with reading it—introducing my friend, John, and endorsing this project, and may I ask your consent to place this in the record?

Senator DANFORTH. Well, thank you, Senator Dixon. You share, as I understand it, the enthusiasm of John Kramer for this project and its importance in the development and maintenance of transportation, not just in East St. Louis but in the Midwest. You also share, as I understand it, John's concern for the economic development of East St. Louis.

I want to press John on this later, but could you just give a thumbnail sketch of East St. Louis and the economic plight of that community at this time?

Senator DIXON. Well, as you know, Mr. Chairman, I am well familiar with the city of East St. Louis. It is a community that was part of my legislative district throughout my 20 years of service in the Illinois General Assembly, 12 years in the House, 8 in the Illinois State Senate. That community has dwindled in population during my adulthood from a community of over 100,000 people to a community that is now estimated to have approximately 55,000 people in it, I believe, John.

As a youth, I can remember a great diversity of economic interests in East St. Louis. All of the major packing houses and the major manufacturers in the Midwest had important facilities in East St. Louis. Most of that has left the community. The economic circumstances there are bleaker than, I expect, any place in the United States.

I cannot cite the given statistics at this moment, Mr. Chairman, but let me assure you that the economic plight in East St. Louis is in fact an actual depression to compare with the deep depression of the thirties, and a plight that just shocks the conscience, and anything that this committee, anything that this Congress, anything that this Government can do to help alleviate the economic suffering and the difficult circumstances that exist in that place would be a credit to all of us.

I recommend to you this project as being a significant one in that regard, Mr. Chairman. I want to express to you as a neighbor of yours right across the river the warm appreciation I have for the distinguished service of you and your senior colleague, Senator Eagleton, and the contributions you have made to this project. We thank you for it, and ask you to continue your good work, and I know that I speak for Governor Ogilvie and Colonel Griggs and Secretary Kramer when I say that we will cooperate fully with you in every way.

I thank you very much for letting me make that statement.

Senator DANFORTH. Senator Dixon, thank you very much.

[The statement follows:]

STATEMENT OF HON. ALAN J. DIXON, U.S. SENATOR FROM ILLINOIS

Mr. Chairman and members of the committee, I am very pleased to be able to appear here today to introduce to you John Kramer, sercretary of transportation for the State of Illinois.

Secretary Kramer is a young man, but his reputation as an expert in the transportation policy area is long standing. His academic credentials are impressive, and he has demonstrated over the course of his career that his good grades in college were no fluke.

Secretary Kramer oversees one of the largest department of transportation in the country, with an annual budget of over $2.5 billion and over 7,400 employees. He is responsible for directing the State's policies and programs dealing with highways, public transportation, traffic safety, aeronautics, freight and passenger rail services and water resources.

In addition, he has provided knowledgeable advice and counsel over the years on Federal transportation issues. He has helped the Illinois congressional delegation greatly in trying to resolve a number of major Federal transportation issues that significantly affect Illinois.

Secretary Kramer was appointed to his present post in 1977, but he has been with the Illinois Department of Transportation since 1973. Prior to joining the department, he was director of the Highway Action Coalition here in Washington, D.C., an organization with which I am sure you are familiar.

There is much more I could tell you about secretary Kramer; I have known him personally for a number of years. We worked together closely when I was secretary of state in Illinois. I consider him a good friend and an excellent public servant, and I commend him to you.

I also want to endorse the statement he will make today. I'm sure, Mr. Chairman, that you are well aware of the importance of the St. Louis metro area rail gateway enterprise project—known as MARGE—to both of our States. I want to commend you for your help and for your leadership in this area. And I especially want to thank you for providing us with an opportunity to discuss this project with you today.

As you know, St. Louis metro area is the second-largest rail hub in the Nation. 14 railroads operate in the gateway, handling over 2 million cars annually.

MARGE will help eliminate the bottlenecks that currently plague the gateway and enable it to efficiently handle future traffic growth. The project will also make available over 1,500 acres of riverfront property, providing an important economic development incentive for the area.

However, MARGE can only do these things if it goes forward. To permit it to go forward, the preference-share program must be continued. The preference-share program has been the key catalyst in getting the project underway. Without it, it would be difficult, if not impossible, to get agreement from all 14 railroads and the numerous other interested parties on a plan and financing arrangment.

I understand the pressures on the Federal budget. I know that you, as I, want to keep Federal expenditures to the absolute minimum level necessary. However, I believe that continuation of this loan program, perhaps at a reduced level in order to comply with budgetary realities, is essential. Without it, the benefits that MARGE will provide for the railroad industry and the entire St. Louis metropolitan area would certainly be lost.

The preference share program has been important to my State and to a number of railroads operating in Illinois. I again, therefore, commend Secretary Kramer's testimony to you, and I urge you to do all you can to see that the important benefits provided by the preference share program are not lost.

Senator DANFORTH. Colonel Griggs.

STATEMENT OF COL. LEONARD GRIGGS, DIRECTOR OF TRANSPORTATION, CITY OF ST. LOUIS, MO.

Colonel GRIGGS. Senator Danforth and members of the committee, it is a pleasure to be here. You have my prepared statement.

Senator Dixon, I think in your heart you really know we were right on the airport issue, but we will not go into that.

Senator DANFORTH. Whether he knows it or not, I know it.

Colonel GRIGGS. Thank you, Senator.

Mayor Schoemehl has asked me to express his regret that he could not be here, and asked me to represent him.

I think without reading my testimony—it pretty much speaks for itself—I do feel that since I have taken this job as head of transportation, that John Kramer and I and all the officials from the States of Illinois and Missouri are in absolute, total agreement on this thing, that we recognize that to develop the Port of St. Louis, to develop the transportation link, that we cannot do it in a vacuum, and we stand prepared, even though there is no actual monetary gain, that St. Louis will gain any property pickup, that this thing is totally essential to us.

Senator Dixon's comments about the economy of East St. Louis and the depressed area of that economy are absolutely true, and we recognize that in this one we have to reach across the river and cooperate, and we stand prepared, sir, to cooperate, because we cannot grow without them and they cannot grow without us, and the testimony stands for itself, sir.

Senator DANFORTH. The testimony and the other statements that you have submitted, John, will be included in the record.

[The statement follows:]

STATEMENT OF COL. LEONARD L. GRIGGS, CHAIRMAN, CITY OF ST. LOUIS TRANSPORTATION COUNCIL, AND DIRECTOR, LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT FOR HON. VINCENT C. SCHOEMEHL, JR., MAYOR, CITY OF ST. LOUIS, MO.

Senator Danforth, members of the Surface Transportation Subcommittee, I certainly appreciate this opportunity to appear before you today and express the strong support of the City of Saint Louis for continuation of the preference share funding program. Mayor Schoemehl asked me to express his regret that he could not be here

himself and to thank you for permitting me, as Chairman of his Transportation Council, to represent him.

I believe that preceding testimony this morning has clearly laid out the reasons why the preference share program is absolutely key to the carry-out of the MARGE rail restructuring project in the St. Louis Gateway. Let me simply add my endorsement to that testimony and share with you very briefly the prespective from which we as the City of St. Louis view the MARGE program.

MARGE is perhaps one of the largest and most graphic examples in our region of a project which demonstrates how proper upgrading and organization of our transportation infrastructure relates to our community development needs. Secretary Kramer has pointed out to you that MARGE has received financial support from both St. Louis County and the City of St. Louis. This is despite the fact that none of the land freed up by yard restructuring is on the Missouri side of the river. Certainly, it is in our interest to improve rail service in the Gateway as a means of enhancing our attractiveness to shippers who may be persuaded to locate in the area. The City is interested as well in maximizing to use the MacArthur Bridge, which we own, to the benefit of regional and national commerce. Over thirteen miles of our bridge approaches, as well as the bridge itself, are included in the project study area.

Equally as important to us, however, are the project's direct community development benefits to the municipalities in Illinois, directly across the river. I am convinced, and I know Mayor Schoemehl is convinced, that the economic health of our City is intimately tied to that of the region as a whole, and we intend to do everything we can to support the efforts of the State of Illinois, the City of East St. Louis, and the other affected Illinois local governments. We want to help make sure the MARGE project is carried forward to completion.

We support continuation of the preference share program as a means of funding assistance because of its usefulness as an incentive for the railroads to work cooperatively and because of the financial needs of certain of the participating railroads. Even more important, we believe that the community redevelopment phase of the project has a broad public purpose, the benefits of which will accrue to all our citizens, not just to the railroads and shippers. May I point out to the members of the Subcommittee that much of the East Side riverfront land to be freed up as a result of the project is directly across the river from the Gateway Arch. The Arch and its environs, the Jefferson National Expansion Memorial, is one of this most-visited National Parks and is accessible to literally millions of persons with limited financial means, owing to its location in a densely-populated urban area. We believe that, while there is no doubt about the need to trim the federal budget wherever appropriate, there is in this case a long history of federal interest, federal involvement, and a clearly justified role. Preference share assistance to MARGE is the most cost-effective means for the continuation of this role, in that 15 percent of the loan funds will eventually be repaid to the Treasury.

Let me conclude by saying that my position as head of the Transportation Council is a new one, and one for which I have a great deal of enthusiasm. The Mayor's purpose in establishing the Council was to insure that transportation planning is coordinated in such a fashion that economic and community development opportunities are properly supported. We especially hope to emphasize the riverfront area over the next several years; we have hired a new Port Administrator and intend to pursue an aggressive policy of intensifying use of land and facilities in the Port District. The success of MARGE is critical to the success of our own local efforts. We stand ready to offer assistance in any way we can, and we urge this subcommittee to continue its history of support by extending the 505 preference share and 511 guaranteed loan programs.

Again, I am grateful for the opportunity to express the position of the City of Saint Louis on this legislation. Thank you very much.

Senator DANFORTH. There are some points which I would like to discuss with you. First, it is clear that the St. Louis area has been for many, many years something of a railroad crossroads. Isn't that correct? It is a major rail transportation center which is significant not just for the local economy, but it is a crossroads in rail transportation in this country. Is that a fair statement?

Mr. KRAMER. That is correct, Mr. Chairman. St. Louis ranks second only to Chicago in the number of railcars handled annually. It is the junction of some 14 major east-west and north-south rail

lines. It is one of the Nation's premier rail centers. If you look at a railroad map of the United States, you will find that St. Louis is really at the core of that system.

Unfortunately, because many of the facilities in St. Louis were built in the late 19th century, it has not functioned as efficiently as it might in serving as one of the Nation's rail centers, and has in fact contributed by virtue of accumulated deferred maintenance to inefficiencies within the system as a whole.

St. Louis nonetheless continues to be a premier rail center. It is a generator of thousands of jobs, and is indeed central to the functioning of the whole national rail system.

Senator DANFORTH. As a practical matter, what is wrong with the situation right now in East St. Louis? What is the problem?

Mr. KRAMER. There are really four problems. One is that the yards and other facilities are antiquated. Many of them were built right after the Civil War, and have had relatively little investment made in them since that time. The second problem is that they are scattered. There are some 67 rail yards in the metropolitan area. The result of that is, traffic is being shuttled from one yard to another to be interchanged at great economic cost, and at great cost in time.

The third problem is that the major crossing across the river, Merchants Bridge, which carries some 64 percent of the rail traffic through the metropolitan area, is old. The bridge is 84 years old. It needs to be replaced, and resources in today's capital market simply are not there to do that job.

The fourth problem is, as I suggested im my testimony, that many of the yards are concentrated along the riverfront, a riverfront which ought to be East St. Louis and the metropolitan area's as a whole chief economic asset. With those yards there, that riverfront cannot possibly serve its appropriate role as a stimulant for job creation in the private sector and the revitalization of East St. Louis and neighboring communities.

Senator DANFORTH. All right. Now, just to a lay person, say, or a citizen of Topeka, Kans., is it important that something be done?

Mr. KRAMER. It is absolutely essential. Chances are if you are a shipper in Topeka, Kans., you would spend a good deal of your time, when rail traffic is at a higher level than it is at the moment, waiting for a railcar to arrive to take your product to market. Chances are that car is somewhere shuttling between one yard and another in East St. Louis or perhaps Chicago. The fact that St. Louis has been a major bottleneck in the system impacts the entire system. It is a key nerve center in the whole system.

Furthermore, the fact that costs are high and reliability is not what it ought to be for local shippers in the St. Louis area means that St. Louis, one of the Nation's premiere industrial centers, is undercut in its efforts to bring jobs and efficiency to the entire manufacturing economy of the Midwest, and that affects all of the Midwest.

So, I believe that hypothetical person in Topeka, Kans., has almost as big a stake in this project as those of us do who live and work in the St. Louis metropolitan area.

Senator DANFORTH. Now, you heard Senator Dixon's description of the economic conditions in East St. Louis. Do you have anything to add in that regard?

Mr. KRAMER. Just to underscore the fact that unemployment levels are extraordinarily high in East St. Louis. I believe the official unemployment rate at the moment is about 11 percent. That official rate far understates the problem, inasmuch as a very large portion of the population has lost hope.

Senator DANFORTH. I do not know if you could say this or Senator Dixon could say it, but I can, because it is not part of my State. East St. Louis is a basket case. It is just absolutely clear, it is a basket case, and anything that could be done to help East St. Louis I would think would be worth doing.

Now, there are a number of railroads that are concerned, isn't that correct, John?

Mr. KRAMER. That is correct. There are 14.

Senator DANFORTH. Are they together on this project? Are most of them together or some of them? What is the situation with respect to cooperation of the railroads?

Mr. KRAMER. You will hear later, Mr. Chairman, from Dick Grayson, the president of the Burlington Northern Railroad, who has served not only as a spokesman for the rail industry on this project, but as one of the premier railroaders in this country. I believe that through Mr. Grayson's leadership, a consensus has emerged within the railroad industry on this project.

The industry has recognized for at least 40 years now that some major investment in St. Louis is required for the good of the entire railroad industry. I believe that the railroad industry will enthusiastically support the three component parts of this project that I mentioned; namely, the modernization of the Madison yard and the replacement of the bridge.

Senator DANFORTH. That is two.

Mr. KRAMER. The third is the common TOFC facility in which there is more limited interest but which is essential to at least four of the railroads, and is also key to clearing the Mississippi River front.

Senator DANFORTH. Now, the original project was to be something like a $500 million project. It is my understanding that this has now been scaled back to $120 million. Is that right?

Mr. KRAMER. That is correct, Mr. Chairman.

Senator DANFORTH. Would this $120 million project, although scaled down, essentially do the job? Would there be a very significant improvement?

Mr. KRAMER. It would accomplish the major objectives with which we and the railroads began in planning for this project. It would tremendously increase the eficiency of the gateway. It would reduce the amount of travel time and the cost entailed in transiting the St. Louis gateway. It would clear the riverfront, and as a side bonus, result in a much more rational highway system by eliminating the literally dozens of highway-railroad grade crossings on the east side of the river.

We believe that this scaled-down $120 million project, two-thirds of which ought to be, in our view, financed through the preference share program, will have a tremendous impact, and we believe is

sufficient to meet the needs of the region and the national rail system for at least the next 15 years.

Senator DANFORTH. So, two-thirds would be $80 million that you want in preference shares. Is that right?

Mr. KRAMER. That is correct.

Senator DANFORTH. You heard Mr. Blanchette offer you $25 million this morning. Your view is that that is fine, but that does not quite do it?

Mr. KRAMER. That is correct.

Senator DANFORTH. What would the $25 million allow you to do? could you proceed on one of these, either the bridge or the Madison yard, or what would you do with the $25 million?

Mr. KRAMER. My preference would be to do the first stage of work at the Madison yard. That is, however, a matter which the railroads will have to consider. I appreciate Administrator Blanchette's support for this project and his statement this morning that the Federal Railroad Administration would make the $25 million which Congress has appropriated for this project readily available to begin. I submit, however, that the additional funding which would be possible through the reauthorization of this program is essential to achieving the full objectives of the project, and would hope that Congress would make funds available above and beyond that which has already been appropriated and earmarked for this project.

Senator DANFORTH. Colonel Griggs, do you have anything you would like to add?

Mr. GRIGGS. No; only that if this Nation and Reaganomics and supply side is to work, I think we have to pin our hopes on the export capability of this Nation, and down that Mississippi, the highway structure, the improvement of those bridges, and the commerce that the railroads and highways generate, if this Nation does not wake up to the fact and realize the potential of the central part of this Nation, where 60 rail lines cross—it is an air hub, it is a rail hub, it is a surface transportation hub, and if those steps are not taken to improve it, to allow the growers and the producers of this Nation to ship at an economic rate, we might just as well kiss it off, and therein lies the whole story, sir. It is the economy of the Nation as well as the economy of East St. Louis and St. Louis, and these steps have to be taken.

Senator DANFORTH. And it is related to growth, and it is not just throwing money away.

Colonel GRIGGS. It is not stagnation. It is the growth over the next 25, 30 to 50 years.

Senator DANFORTH. As a matter of fact, wouldn't it be fair to say that if there is a bottleneck in the transportation system, that in itself is inflationary?

Colonel GRIGGS. I would say so, sir.

Senator DANFORTH. Time is money.

Colonel GRIGGS. If you are ever going to get better intermodal transport, this has got to be done. You cannot tolerate a 49-hour delay. You talk about $120 million. The estimated savings if this project is completed is $150 million a year. The two just do not equate. The savings far outweigh the expenditure.

Senator DANFORTH. Would you spell that out?

Colonel GRIGGS. It is estimated by the year 2000 that we will almost double the number of railroad cars that come through that particular area, and if you take the present delay, which is roughly what, 48 hours, and if you contract this down with these improvements to approximately 26 hours that equates to $150 million a year annual savings in just freeing of railroad cars, and therefore, it is essential to this hypothetical citizen in Topeka as well as it is to the buyer in Suffolk, Va., or wherever.

Senator DANFORTH. It has to do with the cost of shipping goods.

Colonel GRIGGS. It has to do with the cost of shipping goods. It has to do with the transit time that is wasted in the shipping of these goods, and I think, as John very eloquently pointed out, a lot of these railroad yards were built prior to the bridges. They were built to enhance the movement across the river by barges, and this entire system has just stagnated, and has to be upgraded.

Senator DANFORTH. Finally, on the economic effect of just the construction itself and what this would mean to the St. Louis area, particularly East St. Louis, has any computation been done on that?

Colonel GRIGGS. John, I will refer that to you.

Mr. KRAMER. I do not recall the exact number of construction jobs that will be generated by this project, but it is an extraordinarily labor-intensive construction undertaking which comes at a time when unemployment amongst the building trades in the St. Louis area is approaching 20 percent. So it is even in the construction stages an important economic stimulant for the metropolitan area, and one which is desperately needed.

Senator DANFORTH. Senator Pressler?

Senator PRESSLER. I do not have any specific questions, other than to say that I am glad to see our colleague, Senator Dixon, here. He has done such a good job of introducing these people. I have a question to ask in view of the fact we are going to have a bit of a struggle reauthorizing this program either because a lot of the States and railroads perhaps have got their money, so to speak, or because of budgetary difficulties. Based on the project you are advocating, if you had to boil this down to a very capsule thing, what chief argument would you make for reauthorizing these railroad assistance programs? Are they a paying proposition?

Mr. KRAMER. Absolutely. No question about that, Senator. This is an investment in America's future. The suggestion that the preference share program has already done its job and that the tax breaks afforded by the Economic Recovery Act are sufficient to promote the revitalization of the industry simply are not true in the case of this project. It is a project which can only happen with a significant preference share component.

It is also a project which, in my view, is absolutely essential for the vitality of the national system, and furthermore, it is a project which will pay for itself many times over in economic, social, and transportation improvements for the country at large.

It is for that reason that we strongly believe this program should and must be reauthorized and adequate appropriations be made available to undertake this project and other key projects.

Senator PRESSLER. Now, is there any way that some bonds could be issued or a loan obtained? If this program is not reauthorized,

this will not happen, you say. Is that a Sherman-like statement? Are you sure of that?

Mr. KRAMER. We obviously will attempt to stretch the funds that have already been appropriated as far as possible, and I would hope that the railroads, which have been involved in the planning of this project from the beginning, would approve the improvement of the Madison yard with those funds which have been appropriated.

I am not, however, absolutely sure that the railroads would elect to proceed without a larger preference share component. I think the railroads would need to speak for themselves on that point. I do know that the railroads have not found it possible to undertake this project with conventional financing, that the number of roads involved and the condition of several of them are such that it really only works with a catalyst, and the preference share program is that catalyst to make this project a reality, and the benefits of it something that all of us can enjoy for many years to come.

Senator PRESSLER. Thank you.

Senator DANFORTH. Gentlemen, thank you very much.

Senator Dixon, thank you.

Senator DIXON. Thank you very much, Mr. Chairman, and I thank Senator Pressler very much as well. One of the great attributes of John Kramer is, he will always thank you for all the money you will allow him while smilingly asking for a little more. He does a tremendous job for us in Illinois.

Colonel GRIGGS. John, I think you and I share that in common. Thank you a lot, sir.

Senator DANFORTH. Thank you.

The next witness is Mr. Richard Grayson, president of the Burlington Northern Railroad.

STATEMENT OF RICHARD C. GRAYSON, PRESIDENT AND CHIEF EXECUTIVE OFFICER, BURLINGTON NORTHERN RAILROAD CO.

Mr. GRAYSON. Thank you, Mr. Chairman, for allowing me to be here.

I have submitted my prepared statement. If I may, I would like to go through a short summary of that statement, and then respond to any questions you may have. Again, I am pleased to have been offered this chance to present my views on railroad financial assistance programs.

In discussing this topic, I will describe two projects that illustrate the direction I think this program should take. We have participated in one such venture with the State of South Dakota, and its pending purchase of the former Milwaukee Line from Ortonville, Minn., to Terry, Mont., near Miles City. The State is buying this line from the Milwaukee Trustee, raising the capital through a bond issue. They will rehabilitate the track by means of section 505 preference share funding.

Burlington Northern is a contract operator. It intends to operate this line for profit, and from the proceeds eventually retire the State's bond obligation and Federal preference shares. Without South Dakota's participation and the availability of low-cost Feder-

al assistance, Burlington Northern would have no rational business incentive in continuing to rebuild service on that line.

More importantly, the shippers and communities along that line would have suffered substantially higher transportation costs.

Another joint project now in the late stages of planning is the St. Louis Metropolitan Area Gateway Enterprise, known as MARGE. I have been closely associated with this project since its inception. I hate to tell you really how long ago this thing started. It was something like 1956, and it was reborn in about 1971.

As a long-time resident of the area—I still do maintain a residence in St. Louis—and a member of the business community and an active participant in the Regional Commerce and Growth Association, I strongly support the objective of the gateway project. Some $25 million of section 505 preference share funding has been earmarked for this effort in the fiscal year 1982 budget.

The purpose of the gateway project managed by the Illinois Department of Transportation and sponsored by the Federal Railroad Administration, with additional funding and support by the State of Illinois, the city and county of St. Louis, and the railroads operating in the gateway, is to improve the transportation facilities and to promote redevelopment in the St. Louis and bi-State metropolitan area.

This project and the preference share funding proposed for it are not a disguised handout for the railroads that operate in and through our Nation's second busiest railroad terminal complex. There are benefits to the railroad, to be sure, and there will be commensurate railroad investment in the venture, but the greater product of this endeavor is the public benefit to the bi-state St. Louis region.

The primary objectives outlined back in 1971 is still valid, and these are, first, to improve railroad operational efficiency within the gateway. Such improvements would include consolidation of 19th century switching yards into fewer streamlined facilities and removing bottlenecks such as bridge weight and clearance restrictions. The payoff from increased operating efficiency in the St. Louis area would redound directly to the benefit of the shippers.

These improvements are designed largely to aid the switching of cars and delivery of services to and from local railroad customers. The movement of a large percentage of cars through the St. Louis rail gateway is a problem that we have improved in other ways. So, the revised gateway project, where we came down from $500 million to about $100 million, does not focus principally on the majority of the through movements.

Second, to provide opportunities for economic development, while enhancing the competitiveness of local shippers by improving transportation services, it consolidates railroad yards and land previously used for switching for new industry. As you know, there is a critical shortage of land for locating new industry of any size throughout the metropolitan area. Moreover, some of the railroad system involved in this long study lies along the river across from the gateway arch and the Jefferson National Expansion Memorial.

Conversion of this property would have a most positive effect on what is today a highly distressed urban setting.

Third, to reduce railroad community conflicts, through relocation of railroad facilities and expedited movement of trains across grade crossings.

The participants in the project, under the leadership of John Kramer, have identified the most important of the many tasks that could be done with a full blown program. They have found repair of the Merchants Bridge, which is the principal rail bridge across the Mississippi River in St. Louis, and modernization of the Madison yard to be the crucial ones, a finding that I fully support.

The bridge repair would involve replacement of major structural components, removing size and weight limitations that presently impose penalties on shippers in the region. Modernization of the Madison yard will free up space now occupied by four or more of the yards, not to mention the positive effects on switching and movement time. I do not advocate at this point consideration of a larger program, although other tasks might be appropriate later on.

We are hopeful that about two-thirds of the approximately $100 million cost would come from Federal preference share programs. This loan project stands in contrast to the roughly $900 million grant which is intended for construction of the new lock at Lock and Dam 26 at Alton, Ill., which is also in the Metropolitan St. Louis area.

Moreover, the railroad industry has more—I had down here 10,000 jobs, and I will take Secretary Kramer's word for 15,000 jobs in the St. Louis area. Moreover, the railroad industry has—and this contracts to about 2,100 people who work directly for the barge industry.

Finally, it should be pointed out that the rail gateway handles substantially more freight than does Lock and Dam 26.

In conclusion, Mr. Chairman, title V funding is a worthwhile instrument for undertakings that will benefit the public where business incentives are insufficient to attract private sector involvement. I do not believe the section 511 loan guarantee program has much value in this regard, and can find little justification for its continuation.

On the other hand, continuation of a program like section 505 redeemable preference shares, low-interest, long-term, flexible, on an ad hoc basis would be worthwhile. Each project should be carefully studied as has this one to be sure that there is a true public interest involved and that the project is supportable on a realistic cost benefit basis, and that the users effectively pay the full cost of the program.

A program funded at levels substantially less than previous budgets, for worthy projects like the Mile City and the St. Louis Area Gateway Project can provide public benefits, but to do so, we neeD the funds.

Senator DANFORTH. Mr. Grayson, thank you very much. Are the railroads pretty much together on this now?

Mr. GRAYSON. Yes, I think so. There have been just literally tens of thousands of hours spent with various groups. I think there is some disagreement as to the scope of the project, but I believe this is to be expected. I think it has come down to a program that can

pretty well be supported. There is at least a consensus, and I think pretty close to a unanimous agreement on the carriers.

Senator DANFORTH. Would you view this particular project as being highly important or fairly important? Where would you place it on a scale of priorities for rail transportation?

Mr. GRAYSON. The project started a long time ago, when Reg Whitman was Federal Railroad Administrator, in about 1969. The factors and the facts have changed a great deal since that time. There have been a lot of mergers, which means that fewer cars have to be switched through the St. Louis gateway than once were. The important factors have not changed dramatically—the cars that must move in small groups between railroads going into other parts of the country, and especially those cars which have to move to and from the metro St. Louis area industry are still being handled through an antiquated system. We stand to lose industry in St. Louis simply because of the high cost it takes to provide that service.

I place a very high priority on this project.

Senator DANFORTH. Not only from the standpoint of the St. Louis area, but for national rail transportation?

Mr. GRAYSON. Well, I think so. We are the second largest gateway in America, as I point out here, second only to Chicago. Certainly Chicago has its problems, too.

Senator DANFORTH. Now, finally, there is the question of cost, and what is the fair share for Uncle Sam to pick up. This is, unfortunately, not an expansionist period, or fortunately, for the Federal Government. It is tough to get money. You have heard Mr. Blanchette testify this morning on the administration's position on this. I am going to have to make an argument to the best of my ability that we are going to have to find some money somehow. But people are going to say to me, but why two-thirds? Why should Uncle pick up $80 million? Why shouldn't the railroads do more?

Mr. GRAYSON. I think we can back off from 80 a little bit and come down to 65 or 70 and get along. I do not think that all the funding has to come in 1 year. The $25 million that is earmarked will carry this project through next year. The construction of a major yard under traffic takes time, as does replacement of the bridge. I think if this program could be structured on some future appropriations, we would not need all this money in the next fiscal year. It could be parceled out over a 3- and possibly a 5-year period. The important thing is that the numbers will show, that Madison yard has the quickest payback period, and so during the time where there are no payments to be made on either interest or principal under the preference share program, the terminal should generate some of its own funds to keep carrying on the merchants bridge program.

One important consideration, Mr. Chairman, is the unusual ownership of the Terminal Railroad Association. There are some that use the St. Louis Gateway that do not have an equity interest in the Railroad Association, the agency which will carry out this project. That railroad terminal is owned by most of the railroads who operate through the St. Louis Gateway, but not by all. Some of the others who own and use terminal facilities, of course, are bankrupt or reorganized companies, and there are some nonowners. So it is

pretty hard for us to put together a conventional financing program that would attract the capital.

It is a very special situation, and as you know, I do not go around very often looking for Federal funds for our own company. We have never had any preference share funding in our company. But I think this is a unique situation. I think Federal loan projects should be done on an ad hoc basis. We should make each project stand on its own and we should make people understand that except for the interest subsidy, which is obvious, that this is not a Federal role, this is a project which will recover every single dime that is lent.

Senator DANFORTH. Senator Pressler.

Senator PRESSLER. Mr. Grayson, Mr. Blanchette maintains that the deregulatory impact of the Staggers Act and the Economic Recovery Act of last year preclude any need for 505 reauthorization. What is your reaction to that argument?

Mr. GRAYSON. I agree to the point of that argument; however, as I said to Senator Danforth, I believe that there are going to be unique cases where 505 funding is the only way a project can be accomplished. But I think, again, these can be done on an ad hoc basis and each one of those should stand on its own merits.

Senator PRESSLER. Mr. Grayson, in your testimony you state that without the availability of 505 funding, that the Burlington Northern would have had no rational business incentive for participating in the operation of the Mile City Line, which is of critical importance to South Dakota's rail transportation needs. Would you please explain to the subcommittee the reasoning behind your statement?

Mr. GRAYSON. We had very litle involvement in your State, as you know, Senator, until a little less than a year ago. We have expanded our involvement in South Dakota, primarily through some relationships that we have developed with many of your people, including Governor Janklow.

The operation of the line from Ortonville, which just happens to be on the State line of Minnesota and near the powerplant that is critical to the people of the eastern part of South Dakota and North Dakota and western Minnesota, was of great concern to us. We think we have some common carrier responsibilities if we can make the deal work.

If we had to go in and spend $60 million of Burlington Northern's money to buy that line and to rehabilitate it, it would be no go from an economic standpoint, using money market rates or using market rate funds. It is a rather thin deal for us at best. However, I think we can make it go and we can probably put some other business on it that will help support the funding. I am enthusiastic about getting started with it because I know it means so much to the people of that area that we serve.

Senator PRESSLER. What would be your reaction to legislative action which would require congressional approval of any title transfer of Milwaukee road property which had been rehabilitated with 505 moneys?

Mr. GRAYSON. Our agreement with the State already specifies how that transfer would be made. It would simply mean an additional delay. Of course, we are not going to start unless that con-

tract is in place, and least of all if a millstone of congressional involvement is around our neck, or the threat of it is hanging over our heads. So it seems to me that this is almost like the St. Louis project. If any project has ever been studied, this one has just about been studied to death.

Senator PRESSLER. Thank you very much.

Senator DANFORTH. Thank you, Mr. Grayson.

[The statement follows:]

STATEMENT OF RICHARD C. GRAYSON

Good Morning Mr. Chairman, and members of the subcommittee. I am Richard C. Grayson, President and Chief Executive Officer of the Burlington Northern Railroad Company.

I am pleased to have been offered this chance to present my views on the railroad financial assistance program. In discussing this topic I will describe two projects that illustrate the direction I think this program should take.

The railroad federal assistance program as enacted in Title V of the Railroad Rehabilitation and Regulatory Reform Act of 1976 (4R Act), filled a legitimate need. In 1975 when the Congress fashioned the Redeemable Preference Share and Loan Guarantee programs, there was a perceived need to inject massive amounts of capital into the railroad industry to overcome deferred maintenance and delayed capital spending. My understanding of the intent of the program is that it was a stopgap—a temporary measure to curtail the decline of railroad properties which, because of previously shortsighted government policies, could not be sustained by business investment.

For the longer term, Congress instituted regulatory reform in the well-founded hope that a private enterprise railroad industry would thereafter produce its own investment resources to rehabilitate, maintain and expand its capital plant. I believe that Congress was correct in its action and that the remedy is working.

Another change since 1976 has been the accelerated evolution of the physical structure of the industry. This necessary shake out and reallocation of railroad properties occasioned the reorganization of the Milwaukee Road and the liquidation of the Rock Island. Congress recognized that there were limits to the ability of this capital-starved industry to absorb lines discarded from the Milwaukee and Rock Island. Without some form of assistance, lines with longer term development possibilities that in many instances served isolated communities and regions would have been abandoned. Consequently, the Congress broadened the base of the Title V program in 1979 to encourage a new class of private ventures that promised public benefits by making low cost Redeemable Preference Shares available to railroads and other for the purchase and rehabilitation of these line segments.

We have participated in one such venture with the State of South Dakota in its pending purchase of the former Milwaukee line from Ortonville, Minnesota to Terry, Montana, near Miles City. The State is buying this line from the Milwaukee trustee, raising the capital through a bond issue. It will rehabilitate the track by means of section 505 Preference Share funding. Burlington Northern, as the contract operator, intends to operate this line for profit, and from the proceeds eventually retire the state's bond obligations and the federal Preference Shares. Without South Dakota's participation and the availability of low cost federal assistance, Burlington Northern would have had no rational business incentive in continuing and rebuilding service on that line. More importantly, the shippers and communities along that line would have suffered substantially higher transportation costs.

Another joint project—now in the late stages of planning—is the St. Louis Metropolitan Area Gateway Enterprise. I have been closely associated with this project since its inception. As a long time resident of the area (I still maintain a residence St. Louis), a member of the business community, and an active participant in the Regional Commerce and Growth Association, I strongly support the objectives of the Gateway Project. Some $25 million of Section 505 Preference Share funding has been earmarked for this effort in the fiscal year 1982 Budget.

The purpose of the Gateway project—managed by the Illinois Department of Transportation, and sponsored by the Federal Railroad Administration, with additional funding and support by the State of Illinois, the City and county of St. Louis and the railroads operating in the Gateway—is to improve the transportation facilities and promote redevelopment in the St. Louis and Bi-State metropolitan area. This project and the preference share funding proposed for it are not a disguised

handout for the railroads that operate in and through our nation's second busiest railroad terminal complex. There are benefits to the railroads to be sure, and there will be commensurate railroad investment in the venture. But the greater product of this endeavor is the public benefit to the Bi-State St. Louis region. The primary objectives outlined back in 1971—and still valid—are these:

First, to improve railroad operational efficiency within the Gateway. Such improvements would include consolidation of nineteenth century switching yards into fewer, streamlined facilities, and removing bottlenecks such as bridge weight restrictions. The pay-off from increased operating efficiency in the St. Louis area would redound directly to the benefit of its shippers; the improvements are designed largely to aid the switching of cars and delivery of services to and from local railroad customers. The movement of cars through the St. Louis Rail Gateway is a problem that we have improved in other ways—the Gateway project does not focus on the majority of the through movements.

Second, to provide opportunities for economic development. While enhancing the competitiveness of local shippers by improving their transportation services, the consolidation of rail yards can free up land previously used for switching for new industry. As you know, there is a critical shortage of land for locating new industry of any size throughout the metropolitan area. Moreover, some of the railroad system involved in this long study lies along the river across from the Gateway Arch and the Jefferson National Expansion Memorial National Historic Site. Conversion of this choice property to a modern, multiple use development, would have amost positive effect on what is today a highly distressed urban setting.

Third, to reduce railroad community conflicts, through relocation of railroad facilities, and expedited movement of trains across grade crossings.

The participants in the project under the leadership of John Kramer, Secretary of the Illinois Department of Transportation, have identified the most important of the many tasks that could be done in a full blown program. They have found repair of the Merchants Bridge (the principal rail bridge across the Mississippi in St. Louis) and modernization of the Madison Yard to be the crucial ones—a finding that I support. The bridge repair would involve replacements of major structural components removing size and weight limitations that presently impose penalties on shippers in the region. Modernization of the Madison Yard will free up space now occupied by four or more other yards, not to mention the positive effects on switching and movement time. I do not advocate, at this point, consideration of the larger program, although other tasks might be appropriate later on.

Just under two-thirds of the approximately $100 million cost would come from the Federal Preference Share program. This loan project stands in contract to the roughly $900 million dollar grant which is intended for the construction of the new lock at Lock and Dam 26 at Alton, Illinois, which is in the Metropolitan St. Louis area. Moreover, the railroad industry has more than 10,000 employees in the area as compared to about 2,100 people who work directly for the barge industry in the region. And finally, the Rail Gateway handles substantially more freight than does Lock and Dam 26.

In conclusion, Mr. Chairman, Title V funding is a worthwhile instrument for undertakings that benefit the public, where business incentives alone are insufficient to attract private sector involvement. I do not believe that the Section 511 Loan Guarantee Program has much value in this regard, and can find little justification for its continuation. On the other hand, continuation of a program like Section 505 Redeemable Preferences Shares—low interest, long term and flexible—on an ad hoc basis would be worthwhile. Each project should be carefully studied, as has this one, to be sure that there is a true public interest involved and that the project is supportable on a realistic cost-benefit basis, and that the users effectively pay the full cost of the program. A program funded at levels substantially less than those of previous budgets would proffer incentives for private participation in worthy projects like the Miles City-Ortonville mainline and St. Louis Metro Area Gateway projects.

Senator DANFORTH. The next witness is Alan Dustin, president of the Boston and Maine Railroad.

STATEMENT OF ALAN G. DUSTIN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, BOSTON & MAINE RAILROAD CO.

Mr. DUSTIN. Good morning, Mr. Chairman and Senator Pressler. I have a prepared statement which I would like to have submitted for the record.

My name is Alan Dustin. I am president and chief executive officer of the Boston & Maine Corp.

I heard mentioned this morning that certain parts of midwestern railroads were constructed originally shortly after the Civil War. If seniority is any advantage, I would like to point out that certain components of the Boston and Maine Railroad were constructed shortly after the War of 1812.

The B. & M. has just completed its second consecutive profitable year in 1981 following 22 years of continuous losses. The Boston and Maine railroad was forced into involuntary bankruptcy in 1970 simply because they had $70 million in bonds mature. At the same time, the railroad had reached a point of disastrous fiscal condition. Obviously, something had to be done.

After 12 years of bankruptcy, we expect to emerge as a reorganized company by the end of this year. When we do this, it will signify the first reorganization on an income basis under section 77 of the Bankruptcy Act since the parade of rail bankruptcies which took place in the 1930's.

In addition to that, when we do reorganize this year, we are going to reorganize on the basis of settling with our secured creditors 100 cents on the dollar, and this includes deferred interest going back to 1962. Our ability to obtain this rather unique achievement is due to a number of factors, but our success story probably could not have been written without the investment that the Federal Railroad Administration made in the B. & M. through the 505 redeemable preference share program.

Three years ago we borrowed $26 million through the issuance of trustee certificates under the Federal redeemable preference share program, these funds were devoted to ending deferred maintenance through the upgrading of our main line. This permitted improvements in service, a significant reduction in derailments, and reduced operating expenses.

There is absolutely no question that this Government program gave us essential resources that would not have been available in the private market simply because of the risks.

Liquidation was never a realistic option for the Boston and Maine. Our services in New England are far too essential to permit liquidation. As an interesting side note to this situation, in 1973 when the 3R Act was passed, the Boston and Maine was one of the seven bankrupt carriers for which the 3R Act was designed. The act's purpose was to reorganize these seven railroads with a Government-designed plan and a heavy infusion of Federal funds.

The B. & M. is the only railroad that did not go that route. We were confident that we could reorganize on a private sector income basis, so we passed up the opportunity to become a part of Conrail and to share in the expenditure and the use of billions of dollars for rehabilitation and operating expenses.

I think I can honestly state that by staying out of Conrail and by borrowing $26 million, which we fully intend to pay back, we saved the taxpayers over $100 million. Had we become a part of that Government-backed system this is about what would have been spent on the B. & M. as a component of Conrail. Let's face it, it is highly unlikely that these funds will ever be paid back.

In addition to that, B. & M. is a critical link in the New England region rail system, which provides competition for Conrail. If we had gone into Conrail, this would have been lost. New England and probably New York State would today be subjected to a virtual Conrail monopoly.

Is the program still needed? Clearly I think the answer is yes. The railroads of the Nation are still in a time of great transition, and we are likely to see this continue for some time into the future. Congress has given Conrail the opportunity to abandon lines essentially without standards. In the first wave, Conrail is abandoning about 3,000 miles. We understand there may be additional abandonments on a wholesale basis.

In addition to that, right now the mandate is for Conrail to be liquidated or at least sold, perhaps starting as early as 1 year or 1½ years from now. This will certainly create another major transition in the railroad industry. In the Midwest there are additional rail-restructuring problems. There are massive projects which must be undertaken to bring the Rock Island Lines into usable condition. Large elements of the Milwaukee system may yet undergo further restructuring.

It is questionable that private markets will provide funds for the projects which should be undertaken to preserve rail service, which is essential to the transportation infrastructure of the Nation.

I am certainly aware of the difficult budget choices facing the administration and the Congress. We have heard it mentioned this morning that funding of this type is very important to certain economic growth. It certainly would be in certain parts of New England. I believe these programs yield a vital investment in the future with great returns.

I am not speaking to the need for specific funds for the Boston and Maine at the present time. We feel that we can reorganize and we can self-fund the projects we need in the near future. However, I believe we would be making a serious mistake if we allowed the authorization for these programs, 505 and 511, to die. They are good programs and with the massive amount of rail abandonment and restructuring there is a need.

We have been through the painful experiences of developing the financial assistance regulations and putting the programs together. We personally spent a lot of time with the FRA in developing the groundrules and the guidelines for implementation of these programs. The FRA staff were tough taskmasters and I commend them for the manner in which they protected the taxpayers' funds. These programs, 505 and 511 are workable, and we believe that they provide a safety net for essential transportation projects.

This committee has received mountains of evidence over the years demonstrating that the railroads' principal competition, chiefly the truckers, have received tremendous subsidy from the Federal Government through the construction of superhighways, while the large trucks have failed to pay their fare share of the costs.

Both trucking and railroads are essential to the transportation needs of this country. They should receive even-handed treatment by the Government. Until Congress enacts meaningful truck user charges, I believe the Congress should preserve those programs

which allow the railroads to borrow at reasonable rates of interest to carry on vital rehabilitation for our railroad system.

I appreciate the opportunity to appear before you today and to submit testimony, and I would be happy to answer any questions you may have.

Senator DANFORTH. Mr. Dustin, thank you. Your testimony is that the railroads are not at this point healthy enough to be weaned away from the preference share program, that it is important to continue that program.

Mr. DUSTIN. Certain railroads, yes. There are some railroads in the country that would not require this kind of funding, but there are certain railroads, important railroads that will probably have a continuing need, and I think we see some changes coming about in the future that would call for this kind of funding.

Senator DANFORTH. If the preference share program were to be reauthorized, do you have any views on how it should be reauthorized? What kinds of projects should be emphasized in a preference share program? It is my understanding that in the past, the primary emphasis has been on overcoming deferred maintenance of main-line track. So-called restructuring assistance is thought to be the great need now.

Do you have any views as to how the legislation should be written? What kinds of emphasis, if any, should be given in the legislation?

Mr. DUSTIN. Well, I think that certainly the success of the program in the past, which has been pretty much dedicated to rehabilitation of main-line tracks, speaks for itself. Other programs have been funded by 511 funds, which is primarily rehabilitation of the locomotives and cars, which has been quite successful.

I would like to see more flexibility placed in the hands of the Federal Railroad Administration instead of identifying specifically certain projects. I would like to see more flexibility and more discretion in the hands of the FRA because of changing conditions. FRA should be permitted to analyze and evaluate projects as they are presented on a priority basis. They should evaluate applications based on the circumstances and the conditions of the time.

Senator DANFORTH. Senator Pressler.

Senator PRESSLER. Mr. Dustin, I am very interested in your comments that Congress frequently reacts to crisis situations with piecemeal legislation. In your testimony you refer to emergency legislation passed through the 1970's to deal with the railroad bankruptcy and deferred-maintenance problems.

I agree that Congress often waits until the 11th hour to find solutions, and the history of railroad legislation may be such an example. How do you specifically see the reauthorization of the 505 program as an effort to take a long-range view of the U.S. rail transportation needs?

Mr. DUSTIN. We are not planning on making any particular submission for funding right now. However, our past funding experience was very successful. We would like to see the program continued on its present basis. The vehicle should be kept in place, a proven vehicle, one that has most of the bugs worked out, and is available for whatever purposes it might be called upon to serve.

Senator PRESSLER. So although you do not plan to apply for any 505 funds, in terms of the Nation, your view of it as a whole is that you would support continuing the program.

Mr. DUSTIN. Yes, and we would certainly support justifiable programs that might be submitted. The railroad industry consists of a number of separate railroads that are totally interdependent on each other. I know of no individual railroad in the country today that can survive alone. It needs its neighbors to pass traffic to and receive traffic from. So we have to look at the industry as a network of individual, but interconnected, railroads. Each independent railroad has to be strong if it is going to contribute to the industry as a whole and carry out its responsibilities for the movement of traffic..

Certainly a Kansas City or St. Louis project is important to the B. & M. because we handle traffic to and from those areas. It might be remote from us geographically, but it is very important to the system as a whole.

Senator PRESSLER. Thank you very much.

Senator DANFORTH. Thank you, Mr. Dustin.

Mr. DUSTIN. Thank you.

[The statement follows:]

STATEMENT OF ALAN G. DUSTIN, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE BOSTON & MAINE CORP.

Mr. Chairman. My name is Alan Dustin. I am President and Chief Executive Officer of the Boston and Maine Corporation -- one of the nation's oldest operating railroads.

I am pleased to inform this Committee that the Boston and Maine has completed its second consecutive profitable year following 22 years of continuous losses. We expect to emerge from bankruptcy this year, fully reorganized within the private sector as a for-profit corporation. We are proud of our accomplishments since we will be the first Class I railroad to emerge from bankruptcy in a quarter of a century.

Our success story has resulted from a number of factors -- a new management team and better management techniques; employee acceptance of an arbitrated labor settlement which led to better work rules increasing our productivity; a firm grasp on the costs of handling our rolling stock and a subsequent new system for better freight car control; increased marketing capabilities, development of new intermodal facilities which facilitate better service for customers; and a good mutually productive relationship with the MBTA for whom we operate rail transit.

Our success story also was enhanced by the investment that the Federal Railroad Administration made in the Boston and Maine through our use of the 505 Redeemable Preference Share program. Our participation was relatively small in comparison with some other railroads -- we borrowed $26 million in Trustee Certificates. These funds were devoted to ending deferred maintenance through the upgrading of our main line, which permitted improvements in service, a significant reduction in derailments and reduced operating costs.

In the dark days of the sixties before bankruptcy and during the early seventies after bankruptcy, deferred maintenance of track and equipment was causing millions of dollars in derailments each year. The Massachusetts Department of Public Utilities hearings in 1969 determined that most of the derailments were caused by a combination of conditions on the B&M and throughout the Northeast. Deferred maintenance of track and equipment and high cube, high center of gravity cars were creating a condition which came to be called "harmonic rock" or to fit the music of the times, by the slang expression: "Rock and Roll."

There was a cure: continuous welded rail to eliminate joints or the surfacing or smoothing of the joints, after the installation of new ties and rock ballast.

While we could and did generate substantial funds from within the bankrupt company to correct the tie condition, we were simply unable to undertake the other elements of the major rehabilitation which was required to quickly put the railroad, literally back on track. In bankruptcy, with a threat of liquidation, we were unable to borrow funds from any other source to perform this needed work.

The 505 funds were our only hope. They were absolutely essential for us to turn the railroad around but we had to present a comprehensive and detailed proposal of need and justification to the Federal Railroad Administration for consideration.

We did a line capacity study with the help of the ICC's Rail Service Planning Office and with the use of their Train Dispatching Model for a Line Capacity Analysis of the B&M's Fitchburg Main Line. With this analysis, we were able to convince our Trustees, the FRA and eventually our Court, that we could retire some of the double track and renew and rehabilitate the remaining track.

The 505 program would thus renew our vital line from the west into New England. Additionally, the reusable materials generated from the program could be cascaded down for maintenance and repair of other main lines, branch lines and even yards. In prior years, we had never been able to utilize the cascade principle because of an inability to buy new material to generate the good track materials required for cascading.

The effects have been dramatic. We retired track but still improved transit time thus allowing more efficient service. Most importantly, our derailment rate plummeted. For instance, Loss and Damage claims (i.e. claims for goods damaged in transit) have dropped from 1975 to 1981 by 47% despite the inflation rates of the times. As a percentage of freight revenues, payments for damaged goods dropped from 2.59% to .85%. This improvement is largely due to the better condition of the track and therefore the lower instance of derailments and rough handling.

The Boston and Maine enjoyed other benefits as well. From what we can determine we have experienced rates of return as a result of the 505 Loan as follows:

Track Rehabilitation	12.5%
Signal Rehabilitation	15.5%
Bridge Rehabilitation	13.5%

This will generate an annual dollar savings to the Boston and Maine of $3,500,000. These are tangible dollar savings that will be put back into the railroad year after year. Salvage material from this project will be cascaded for at least three years and will reduce material costs over that period by 75% or approximately $4,000.000. This rate of return may not be very attractive in today's economy but it is certainly impressive when you compare it to the railroad industry's rate of return on invested capital which was 4.75% in 1980.

While many factors are involved, I think it is a fair statement that the 505 program, and the improved condition of our track, made it possible for the Boston and Maine to attract two interested private sector purchasers last year. Without the 505 program, it is far less likely that either prospective purchaser would have come forward to our Trustees to express an interest in investing in the Boston and Maine. As you may know, the Trustees reached an agreement with Guilford Transportation, and we are presently before the Interstate Commerce Commission seeking the necessary permission for their acquisition of the railroad.

There is little question in my mind that this government program gave us resources that would not have been available on the private market but, in fact, permitted the B&M to reach the point of viability. Furthermore, this loan probably saved the government money! Liquidation was never a realistic option for the B&M. Because of the shippers we serve and the energy efficiency of our route, which passes under the Berkshire Mountains through the Hoosack Tunnel, our lines are vital to the economic infrastructure of the New England Region. The alternative was the B&M being absorbed into Conrail. I am impressed with Conrail and believe it has a good chance of becoming a private sector carrier no longer dependent on federal aid. However, most of the nearly four billion dollars in federal subsidy that has gone into bringing Conrail to its present status will never be recaptured by the government. The B&M loan will be repaid, and is provided for in the reorganization plan. If the B&M had failed and become part of Conrail it would have cost the taxpayers far more than the $26 million loan. Further a critical link in the New England region rail system which is competitive to Conrail would have been lost. New England, and probably New York, would today be subjected to a Conrail monopoly. Instead, we have a private, for-profit rail competitive system being built around the Maine Central, the Boston and Maine and the Delaware and Hudson. This system is expected to reach from Bangor, Maine

on the East and Buffalo, New York on the West and from Montreal on the North to Washington, D. C. on the South. I submit that the Federal Railroad Administration made a good investment in the Boston and Maine.

This addresses the question as to the usefulness of the 505 program in the past. It was vital to the Boston and Maine. It served a major public purpose in preserving private sector railroading in New England. I assume other railroads which have participated in the program could point to similar stories of improvement in their areas as well.

Is the program still needed? Clearly, I think that answer is yes. The Railroads of the nation are still in a time of great transition. In the Northeast, the Congress just last year set a course for rationalization of Conrail and its eventual return to the private sector. Inevitably, as the Conrail situation becomes clearer, it will be essential for rationalization projects to take place. Congress has given Conrail the opportunity of abandoning lines essentially without standards. In the first wave, Conrail is abandoning about 3000 miles. We understand there may be additional abandonments on a wholesale basis. Conrail is also negotiating with numerous other rail systems for the sale of some main and secondary lines. Whether private funds will be available to undertake rail preservation projects on any of these lines is problematic at this juncture -- especially in light of the low traffic levels all Northeast railroads are seeing at the moment. Many of these lines should be abandoned, but others will fit naturally into existing systems.

In the Midwest, this Committee is fully aware of the slowness of the transfer process on the Rock Island. If Mrs. Kassebaum's S.1879 becomes law, or if the Trustee moves to sell the Rock Island without the provision of the Act, there are massive projects which must be undertaken to bring Rock Island lines into useable condition as part of the restructuring of the entire midwestern rail system. We are all aware of the precarious situation in which the Milwaukee estate has found itself and are cheered by the labor concessions recently made which give it a new breath of life. But we are also aware that large elements of this system may yet undergo further restructuring.

As all of this restructuring in the Midwest and Northeast begins, it is questionable that the private markets will provide sufficient funds for all the projects

which should be undertaken to support the transportation infrastructure of the nation. We simply do not know what the total pent up demand will be two or three years from now -- but any observer of the railroad system of the nation knows that there will be a need -- perhaps a considerable one.

I am fully aware of the difficult budget choices facing the Administration and the Congress and recognize that not all desirable programs can be funded. Indeed, I am not speaking to the need for specific funds at the present time. I personally have no statistics to justify going to the Congress with a request for additional funds in this program during the next fiscal year -- although there may be others who foresee immediate needs which are not already met by appropriate funds.

However, I believe we would be making a serious mistake if we allowed the authorization for these programs to die. They are good programs. They have stimulated private investment. They are workable. There is a broad experience base in their administration and the procedural steps which must be taken to qualify. We have gotten through that awkward time period which exists at the start of any government program when regulations are being drafted. Congress is attempting to clarify its intent, railroads are attemtping to find out how the program works, and administrators are gearing up to obligate the funds for the public good within the Congressional guidelines.

We as a nation have had a habit of dealing with rail programs by reacting to an emergency situation by the quick passage of emergency legislation -- the Emergency Rail Services Act, the Regional Rail Reorganization Act, the Rock Island Act, the Milwaukee Act -- just to name a few. How much wiser we would be to leave a tried and true program on the books -- even if funded at a minimal level -- than to attempt to reinvent the wheel. Such action could well provide for a rational program to deal with problems before they reach emergency proportions.

My testimony is directed at the 505 program, which is the program the Boston and Maine utilized. The specific project we undertook, and our financial condition at the time we began to work on the project, made the terms of the 511 loan guarantee program difficult for us. However, we believe that this program, too, provides a "safety net" for essential transportation projects, and like the 505 program should continue to be authorized by the Congress so that it is available when an important need arises.

Although your letter did not specifically request that I do so, I want to comment on two other railroad related programs: the Local Rail Services Act and the Highway Crossing Safety Act. While I recognize that there is serious concern in the Congress about the light density rail lines of the nation, I will have to say that I am less enthusiastic about the Local Rail Services program as presently written than any of the other programs we have discussed. Under its present format, in the past the funds have frequently gone into rehabilitation and maintenance of lines that simply make little economic sense. State DOT's and governing agencies have taken rail needs of relatively little priority in the overall transportation system and given them preference over really urgent transportation needs. The B&M believes that there continues to be a need for support of essential branch lines under a Local Rail Services Act that would provide only for upgrading; and then only if there are significant matching funds from the users of the line. Also, that funds be used only on lines that can prove to be self-supporting once the upgrading is accomplished.

If a line cannot support its economic weight, then it becomes purely a "social" program which cannot be viewed as asssitance to the railroad industry, but rather as assistance to other economic units in the region. Certainly, no railroad gets any economic benefit out of attempting to serve and maintain a losing branch line "just because its there."

These programs are no substitute for other concepts to stimulate private investment. Frankly, I would prefer that it would be unnecessary to use these programs in the future and depend entirely on private investment. The leasing provisions of last year's tax act were an important stimulant to investment in capital intensive industries such as the railroads. For the first time in many years, many railroads were able to take advantage of tax incentives for investment. Because of our status in reorganization, the B&M did not benefit from this provision last year but it plays an important part in our future improvement of rail service in the Northeast.

I recognize that the Federal Grade Crossing Program falls within the jurisdiction of the Senate Public Works Committee, however, I also know railroad safety is of interest to this Committee.

In 1973 Congress recognized federal, state, city and town obligations in the care and rehabilitation of at-grade railroad crossings and passed the Highway Crossing Act which provided 90% funding for this work. The Act was continued in 1976 and 1978 with some necessary changes. Funding runs out in Fiscal 1982.

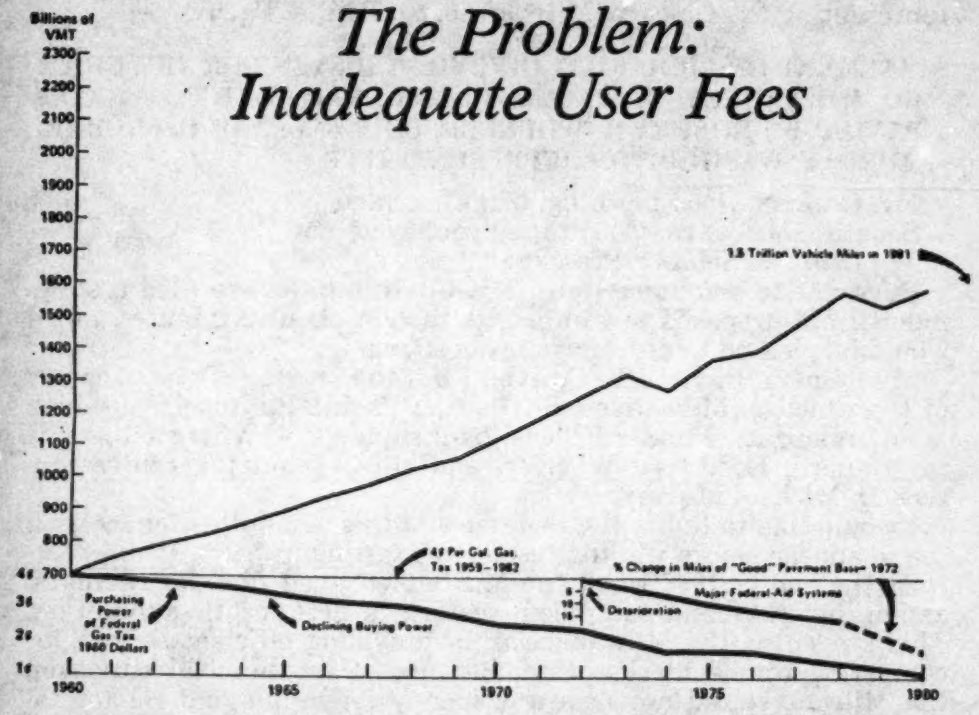
No other highway safety program has had the success shown by this program and it deserves continued Congressional support. Fatalities have dramatically dropped while the number of licensed drivers continues to rise. AAR and FHWA statistics prove that the program is a success.

Again, we request your assistance to continue an action which has shown positive results. The continued funding of the Act with the dedicated language for Crossing Safety is essential and we ask your continued backing. Please see the attached FRA chart detailing increased train and vehicular miles with an astounding decrease in fatalities.

Finally, I want to address the question of public interest. Without going into detail, this Committee has received mountains of evidence over the years demonstrating that the railroads' principal competition -- chiefly the truckers, have received tremendous subsidy from the federal government through the construction of super highways while the large trucks have failed to pay their fair share of the costs. I understand that the Department of Transportation will shortly present the results of its extensive two year study on this matter in the weeks ahead and hope that you will give it your close attention. See the Federal Highway Administration's graph illustrating the deterioration of our major highways due to inadequate user fees.

My point is this -- while the railroads' chief competitor is receiving what amounts to a major subsidy there is an effort to abolish the loan programs which are available to preserve rail service. Both truck and railroads are essential to the transportation infrastructure of the nation. They should receive even handed treatment by the government. It has been rumored that the Administration may propose a use-fee program which will ameliorate the heavy subsidization of our competition. I hope the Congress will give it full consideration. In the meantime, however, I believe the Congress should preserve those programs which allow the railroads to borrow at reasonable interest rates to carry on vital rehabilitation.

The Problem: Inadequate User Fees



The above chart illustrates the combined effects of increasing travel and inflation on the condition of the Nation's highway system. While travel demand has grown from 700 billion Vehicle Miles of Travel (VMT) in 1960 to over 1.5 *trillion* VMT in 1981, the purchasing power of the Federal gas tax has declined from 4 cents in 1960 to less than 1 cent during the same period. As a result, the percentage of *major* Federal-aid highway mileage considered to be in good condition has declined by 59 percent. The deterioration of our major highways will increase considerably the cost of operating a vehicle. Source: Federal Highway Administration.

FATALITIES AT PUBLIC HIGHWAY-RAILROAD CROSSINGS, 1967-1979

	Fatalities	Train Miles (thousands)	Highway Vehicle Miles (millions)
1967	1,520	570,186	966,005
1968	1,448	551,868	1,019,726
1969	1,381	540,474	1,066,108
1970	1,362	519,886	1,114,098
1971	1,267	499,026	1,183,524
1972	1,190	511,399	1,264,614
1973	1,077	538,757	1,316,207
1974	1,128	534,040	1,282,790
1975	788	468,321	1,330,074
1976	978	491,058	1,409,163
1977	846	493,891	1,466,000
1978	926	497,134	1,548,231
1979	727	499,514	1,529,133

Sources Fatalities Federal Railroad Administration
Train miles American Association of Railroads Highway vehicle miles Federal Highway Administration

Senator DANFORTH. The next witness is Gov. Richard Ogilvie, representing the Chicago, Milwaukee, St. Paul & Pacific.

STATEMENT OF RICHARD B. OGILVIE, TRUSTEE FOR THE CHICAGO, MILWAUKEE, ST. PAUL & PACIFIC RAILROAD CO.; ACCOMPANIED BY ROBERT H. WHEELER, COUNSEL; AND D. MICHAEL MURRAY, WASHINGTON REPRESENTATIVE

Mr. OGILVIE. Good morning, Mr. Chairman.

Senator DANFORTH. Good to see you, Governor.

Mr. OGILVIE. Senator Pressler.

Pursuant to your directions, Mr. Chairman, I have filed a statement. I am prepared to summarize that in about 2 minutes, and I would be pleased to answer your questions.

My name is Richard B. Ogilvie. I am the trustee of the property of the Chicago, Milwaukee, St. Paul & Pacific Railroad Co., which is an organization under Federal bankruptcy law. With me today is my counsel, Robert H. Wheeler, and our Washington representative, D. Michael Murray.

I would like to thank the Senator and this committee for inviting me to appear before you to present this testimony.

At the end of 1977 when the Milwaukee Road filed for reorganization, its track and equipment were in a deteriorating condition. This prevented the Milwaukee from providing efficient service for competing in the marketplace. Because of its financial situation, the Milwaukee did not have the money for repair and rehabilitation and could not obtain the money from commercial sources.

The Milwaukee obtained about $52 million of section 505 funds for track work, primarily in our main line between Chicago and the Twin Cities, and $40.7 million of section 511 funds for rehabilitation and repair of over 2,000 freight cars and 157 locomotives, and the construction of a pollution control facility in Milwaukee.

These programs have enabled the Milwaukee Road to resume its position as an efficient and competitive railroad. Transit times and data ratios have been substantially reduced. Section 505 and 511 programs are a vital factor in the Milwaukee Road's progress toward income-based reorganization rather than a liquidation.

Under the revised plan of reorganization which I have submitted to our reorganization court, these obligations will be assumed by the railroad and be paid according to their terms. Even if the Milwaukee Road could not be reorganized, the rehabilitated lines and equipment would be useful to other railroads. We would expect them to remain in service.

The Milwaukee Road's cost programs have been successful. Under the revised plan of reorganization it does not depend upon any additional 505 or 511 funding. That does not mean that the Milwaukee could not use additional funds, and in fact my staff is presently preparing an application for $6 million of 505 funds to rehabilitate our track between the Twin Cities and Ortonville Minn., which is on the State line.

Thank you very much.

Senator DANFORTH. Governor, thank you.

Is it fair to say that you do not agree that the railroad industry has not reached a point where, because of greater economic free-

dom and other changes, it does not need Federal financial assistance?

Mr. OGILVIE. That is correct and I agree with that statement. Some railroads, as has been pointed out before, are obviously in a much more healthy situation, but I would think the industry as a whole is going to continue to need the option of looking to title 5 resources.

Senator DANFORTH. What would happen without title 5?

Mr. OGILVIE. What would have happened in our case is we would have ceased to exist. There was just no way we could continue in operation without Federal help.

Senator DANFORTH. And how about looking into the future?

Mr. OGILVIE. I would say in light of the requirement that the Interstate Commerce Commission has imposed, certainly in terms of our situation where we have to have a net return on investment of slightly in excess of 11 percent, it could well be, depending on economic circumstances, that we would have to look to the Federal Government for sources of funds that we could not get in the commercial area.

Senator DANFORTH. Senator Pressler.

Senator PRESSLER. Yes, Governor. Good morning.

Mr. OGILVIE. Good morning, sir.

Senator PRESSLER. Your testimony demonstrates that the Milwaukee has worked to reassess its transportation capabilities in light of its economic future. It is gratifying to see that 505 moneys have been used to insure the continued viability of the railroad. This is a good example of the public and private sector working together to strengthen the economic viability of the private sector.

However, the 505 and 511 programs have both been criticized as Federal subsidies to the rail industry. How would you respond to that criticism?

Mr. OGILVIE. In your case that is certainly not the situation. We are currently paying back obligations that we have incurred under 505. Our estate is in such shape that the Federal Government is going to reasonably look forward to our paying back, with the required interest, all of the funds that we have borrowed.

Senator PRESSLER. Earlier this morning Mr. Blanchette maintained that rail deregulation and last year's tax legislation are sufficient Federal efforts to assist the rail industry, and that 505 reauthorization is unnecessary. From an industry perspective do you believe that the Staggers Act and the Economic Recovery Act are sufficient to insure the continued revitalization of American railroads?

Mr. OGILVIE. I would have to respectfully disagree. As I say, I think we need to have that option. In fact, in my own experience in Government service, I hate to ever lose an opportunity which we have in hand and at some later time have to come back to the Congress to try to reinstitute this entire program. It would be very difficult, I think.

Senator PRESSLER. Based on the Milwaukee's experience with the 505 program, do you have any recommendations to make to the subcommittee regarding changes or adjustments in the program as it is currently mandated?

Mr. OGILVIE. I cannot think of any technical adjustments. The most important consideration, of course, is adequate funding for the needs of these railroads.

Senator PRESSLER. If you want to submit something later if you have specific recommendations, we would be glad to hear them.

If Congress took action to require legislative approval of any title transfer of Milwaukee property which has been rehabilitated with 505 funding, what effect would this have on their efforts to reorganize and restructure the company? For instance, what effect would such a measure have on your agreement with the State of South Dakota?

Mr. OGILVIE. I would anticipate that it would make it very difficult. In fact, let me add this. In the situation in your State, Senator, we have been able with some difficulty to continue service, and we are the principal railroad, have been historically, in South Dakota. You know, without these programs the prospect that the arrangement that is being negotiated between the State and Burlington, and the State's needs for rehabilitation funds, you would lose your railroad service; and I think that would be devastating.

Senator PRESSLER. Governor, would you please comment on the specific importance of 505 funding to the agreement you have entered into with the State of South Dakota concerning the Miles City line?

Mr. OGILVIE. I listened to Mr. Grayson's testimony, and without 505 funding the rehabilitation funds would not be available to put that line in shape. Let me say that if we were a solvent railroad, I would like to have continued to maintain our ownership and operation of the line out to Miles City, but there is just no way that the court would permit us to incur the $30 million-plus of rehabilitation expenses in order to maintain and continue that operation. So it is a godsend for you.

Senator PRESSLER. Thank you very much.

Senator DANFORTH. Governor, thank you.

Mr. OGILVIE. Thank you.

[The statement follows:]

STATEMENT OF RICHARD B. OGILVIE

My name is Richard B. Ogilvie. I am the Trustee of the Property of the Chicago, Milwaukee, St. Paul & Pacific Railroad Company which is in reorganization under federal bankruptcy laws. I have previously served as Governor of Illinois and have held several other government positions. I am a director of a number of business corporations and a practicing lawyer. With me today is my counsel, Robert H. Wheeler and our Washington, D.C. representative, D. Michael Murray. I would like to thank Senator Danforth and the Sub-Committee for inviting me to appear before you and present testimony regarding railroad financial assistance programs under Sections 505 and 511 of the Railroad Revitalization and Regulatory Reform Act of 1976.

I have been asked to cover three areas in this testimony. First, the Milwaukee Road's participation in the preference share and loan guarantee programs; second, whether the programs have achieved the purposes for which they were established; and third, the need for some form of railroad financial assistance program in the future and what purposes such program might serve.

I. THE MILWAUKEE ROAD'S PARTICIPATION IN PREFERENCE SHARE AND LOAN GUARANTEE PROGRAMS UNDER THE 4R ACT OF 1976

The Milwaukee Road is in reorganization under Section 77 of the Bankruptcy Act of 1898. I will, in my comments, describe the Milwaukee's participation in various

programs and the method of repayment proposed in my Revised Plan of Reorganization for the Milwaukee Road which was submitted to the Reorganization Court on September 15, 1981. This Plan of Reorganization must be reviewed by the Interstate Commerce Commission and the Reorganization Court and it may be modified in various respects. In addition, it is conceivable that the Milwaukee Road Reorganization will end in a liquidation or in a sale of all or part of the railroad to another entity. Either of these eventualities could affect the proposed treatment of the Milwaukee's Section 505 and 511 obligations.

A. Track rehabilitation programs under section 505 of the 4R Act.

The Milwaukee Road 505 projects have focused on its Chicago-Milwaukee-Minneapolis-St. Paul mainline. This mainline is the backbone of the Milwaukee Road. Studies conducted by the Federal Railroad Administration pursuant to the 4R Act indicate that the Milwaukee's Chicago-Twin Cities mainline is vital to the national rail system. It is the shortest of the rail mainlines which run between Chicago and Milwaukee and the Twin Cities. It has the best grades. It is the route with the greatest inherent capacity. Amtrak passenger trains run over the Milwaukee's tracks and it has been given a defense essential classification.

Prior to bankruptcy, the Milwaukee Road sold $9.15 million in redeemable preference shares to the United States. This was followed by a project in 1978 which cost $24.2 million. These projects permitted surfacing, ballasting and retieing on 316.33 miles of railroad between Mulwaukee, Wisconsin and Newport, Minnesota which is just outside of St. Paul. Thirty miles of new rail was installed, 10 miles of second-hand rail was installed, 10 new turn-outs were constructed, 350 highway crossings were repaired and some track equipment was repaired.

In 1980 an additional project was undertaken. The application contemplated two phases at a cost of close to $33 million. Only the first phase, $18.4 million, was approved by the FRA. Under this program, the bridge at Knowlton, Wisconsin on the Milwaukee Road's "Wisconsin Valley Line" was rebuilt to enable it to handle coal unit trains. 6.4 miles of rail between Techny, Illinois and Lake Forest, Illinois were replaced. 20 miles of track between New Lisbon, Wisconsin and Wausau, Wisconsin were tied, surfaced and ballasted as were 58.15 miles between Chicago, Illinois and Milwaukee, Wisconsin.

Under my Revised Plan of Reorganization these obligations will become redeemable preference shares of the reorganized Milwaukee Road upon confirmation of the Reorganization Plan in 1985 and will be paid off according to their terms.

All of the lines rehabilitated by the Milwaukee Road under Section 505 financing are still in operation as part of the reorganized Milwaukee Road. The lines on which rehabilitation has been performed are prime candidates for transfer as operating lines to other railroads in the event that the reorganization fails and the Milwaukee is liquidated.

B. Section 511—locomotive and car rehabilitation program[1]

During its reorganization, the Milwaukee Road has financed two programs using Section 511 funds. In 1979 a $21.4 million project was financed. A waste-water treatment facility was built at the Railroad's Milwaukee Shops to enable it to comply with state and federal environmental regulations. That cost $2.3 million. $5.9 million was used for the repair of 1,000 freight cars of various types. And $13.2 million was used for the repair of 122 locomotives.

In 1980, a $19.3 million project was financed. Under this project 1,053 cars, including 19 cabooses, were repaired at a cost of about $12.6 million, and 35 locomotives were repaired at a cost of about $6.6 million.

The waste-water treatment facility and all of the equipment is still in service on the Milwaukee system, with the exception of a few freight cars destroyed in derailments.

In the September 15th Revised Plan of Reorganization it is contemplated that these obligations will be assumed by the reorganized railroad as long-term debt and retired in accordance with their sinking fund terms.

II. HAVE THE 505 AND 511 PROGRAMS ACCOMPLISHED THE PURPOSES FOR WHICH THEY WERE ESTABLISHED?

The declared purpose of the 4R Act is "to provide the means to rehabilitate and maintain the physical facilities, improve the operations and structure, and restore

[1] The Milwaukee Road's Labor Protection Agreement under Section 9 of the Milwaukee Railroad Restructuring Act is also funded under Section 511 of the 4R Act. My testimony will not cover this program, however.

the financial stability of the railway system of the United States, and to promote the revitalization of such railway system, so that this mode of transportation will remain viable in the private sector of the economy and will be able to provide energy efficient, ecologically compatible transportation service with greater efficiency, effectiveness and economy . . ." In the experience of the Milwaukee Road the Section 505 and 511 programs have worked to achieve those purposes.

At the time the Milwaukee Road filed for reorganization under the Bankruptcy Act, it was estimated that over $325 million of deferred maintenance needed to be done on its tracks alone. During the early part of the reorganization, the bad order ratio for the Milwaukee's freight cars was 16% compared to a railroad industry average of 9.5%. For road locomotives the bad order ratio ranged from 25% to 51%. In order to meet its service obligations, the Milwaukee required a locomotive bad order ratio of 12%. The Milwaukee Road could not generate the funds internally to remedy the situations and, given that it was bankrupt, could not obtain financing through normal commercial channels. It is quite clear that without the funds provided to the Milwaukee for rehabilitation of track and equipment under 4R Act programs, the Milwaukee would not be where it is today. The Milwaukee would not be providing efficient competitive service as a private enterprise. Neither would it be proceeding towards an income based reorganization or a sale of its entire system as a private operating unit. The Milwaukee would be in liquidation along with the Rock Island.

As for tangible indicators of the success of the program, transit times from the Twin Cities to Chicago on the Milwaukee's mainline have dropped from 2.3 days before the completion of the rehabilitation programs to 1.1 days at present. Due to both the rehabilitation programs and to the concentration of the Milwaukee's equipment fleet made possible by the abandonment of substantial portions of its system under the Milwaukee Railroad Restructuring Act, the bad order ratio for freight cars has dropped to as low as 6% and the bad order ratio for road locomotives has dropped to below 10%.

I would point out, additionally, that the 4R Act financing programs consist of loans and obligation guarantees which are to be repaid. They do not represent subsidies or giveaways to the railroad industry.

III. RAILROAD FINANCIAL ASSISTANCE PROGRAMS FOR THE FUTURE.

Because of the uncertainty of future availability of Section 505 or 511 funds, my Revised Plan of Reorganization does not depend on any additional borrowings from the Federal Government. Any rehabilitation or rebuilding which is required or contemplated in the Plan is projected to be funded from internally generated funds. This does not mean, however, that we would not find additional programs useful or that we would not seek additional funding should such become available. To the contrary, we are in the process of putting together an applciation for $6 million of Section 505 funds to rehabilitate the Milwaukee Road's mainline running from Minneapolis, Minnesota to Ortonville, Minnesota.

Senator DANFORTH. The next witness is Jacob Billig, special counsel to the State of South Dakota.

STATEMENT OF JACOB P. BILLIG, SPECIAL COUNSEL TO THE STATE OF SOUTH DAKOTA

Mr. BILLIG. Good morning, Mr. Chairman, Senator Pressler.

My name is Jacob Billig. I am special counsel to the State of South Dakota for railroad matters. Governor Janklow had hoped to be able to present his prepared testimony to you today but unavoidably is unable to do so. He has asked me to appear on his behalf.

I have had the privilege of working with Governor Janklow as well as with Mr. James Myers, director of the South Dakota Division of Railroads, since the beginning of the Janklow administration on January 1, 1979, so I am familiar with the subject matter at hand.

Governor Janklow's views have already been presented in writing and we would respectfully ask that they be admitted into the

record. I will attempt to summarize them and be available to answer any questions.

Senator DANFORTH. Without objection, they will be inserted in the record.

Mr. BILLIG. As Governor Janklow's testimony indicates, South Dakota is on the way to solving its railroad problems. On January 1, 1979 when Governor Janklow took office, these problems seemed almost insurmountable as a result of the Milwaukee bankruptcy and the embargo which was then sought for all of the branch lines in South Dakota, some 1,300 miles, as well as for the main line from Jonathan, Minnesota to Miles City, Mont.

The Milwaukee Railroad at that time had participated in over 40 percent of South Dakota's movements, primarily grain and coal, and also served the Big Stone utility at Big Stone, which provides power for a four-State region.

The State proceeded to tackle the problem in two ways. First, it tackled the branch line problem. It acquired some 820 miles of local lines at solely State expense. To do so, it imposed a sales tax, received from that tax $22.5 million and bought the lines without any Federal assistance whatsoever. It then proceeded to rehabilitate these lines, again preponderantly at the expense of the State and private enterprise.

As of the end of 1982, a projected $28 million will have been spent on the rehabilitation of the local lines. This constitutes $16 million in State and private funds and $12 million in Federal funds. While the preponderance of this funding has been from the State and private sector, the State of South Dakota could not have gone it alone without this local Federal railroad assistance.

As you are well aware, Senator Pressler, the average per capita income in South Dakota is $7,806, and this ranks it 42d in the Nation. The Federal aid which was available for this rehabilitation of these local lines was indispensable.

The main line, the second aspect of the South Dakota problem which was precipitated by the Milwaukee bankruptcy, presented a much more complex problem. The main line is a multi-State line. It goes through Montana, South Dakota, North Dakota, and Minnesota. It is used for the movement of grain and coal in national and not just local commerce. Involved, as I indicated, is service to a major utility and, finally, it required a significant capital expenditure for rehabilitation as well as for acquisition, a total of $60 million, $30 million for each.

We are pleased to report that we are on the way to achieving a solution to the main line problem. As has been indicated, the State has reached an agreement in principle with the Milwaukee trustee for the purchase of the line and simultaneously for its lease to the Burlington Northern, which will make rental payments which will retire the debt which will be incurred for the purchase and rehabilitation of the line.

What we would like to emphasize here today is that the linchpin for the success of these deals has been the availability of section 505 financing for the rehabilitation of the main line. Were that financing not available, the main line solution would never have been achieved. In fact, it was only because we had a preindication from the Administrator of the Federal Railroad Administration,

Robert Blanchette, shortly after our application was filed that this application would be granted favorable treatment that we had any credibility in dealing with the trustee and with the Burlington Northern.

Both the agreements which we have now reached with the trustee and the Burlington Northern are dependent upon and conditioned upon the granting of the section 505 application. So, based upon South Dakota's experience in solving both its branch line and main line problems we strongly believe that there is and should be a Federal interest in the resolution of railroad problems such as have been confronted by the State of South Dakota.

These are not just local concerns but clearly national ones. The grain and the coal which move over the main line are part of our national commerce. The grain is part of our national crop. It is important to our foreign trade and also to our foreign aid program. The coal that travels over the main line helps make our country more energy efficient and less reliant upon foreign oil supplies. Hence, we believe it is entirely proper for the Federal Government to participate, as has been the case in South Dakota, in the resolution of these problems.

Transportation is also a vital part of South Dakota's infrastructure. It is fair to say that the negative economic impacts of the loss of essential rail services, such as additional unemployment, lost tax revenues, and other adverse effects, would have a negative financial impact far in excess of the involvement required to keep rail transportation going in that State.

In summary, our experience has been that Federal assistance is an essential ingredient in order to work out solutions which are predominantly crafted and paid for by the State and the private sector. The efforts of South Dakota have shown that this additional Federal assistance, albeit not a predominant assistance, is vital and indispensable, and it is for this reason that we believe that the existing mechanisms for Federal railroad assistance should be left in place and that the Federal Railroad Administration should continue to be given the discretion to judge in each case whether in fact there is a proper and appropriate need for the Federal Government to fill as each application comes before it.

Thank you, and I am here to answer any questions.

Senator DANFORTH. Senator Pressler.

Senator PRESSLER. Thank you very much for your testimony and for your work. I know you have done a great deal of fine work on behalf of our State.

I have about four or five questions here that you might answer and perhaps expand upon later if you wish.

Could you please expand on your statement that without 505 assistance, South Dakota would be unable to reach an agreement on the Miles City Line? Why specifically are these funds so crucial to the agreement you have entered into with Milwaukee and Burlington Northern?

Mr. BILLIG. Well, because of the level of the traffic currently on the line available for movement, it was impossible to interest a solely private enterprise participant in this solution if that participant had to advance, as president Grayson indicated, funds for

both the rehabilitation and the acquisition at the current market rates.

We have achieved in terms of the acquisition a private enterprise solution. That acquisition will be paid for at current market rates. But if we added to that at market rates the cost of the rehabilitation, it would have been a no-go proposition.

Senator PRESSLER. Earlier this morning we heard from Mr. Blanchette on the $30 million, and we think we pretty much have that on track. I recall when he was up for confirmation here we raised some of those questions and worked on that matter. From your point of view do you see any problems with South Dakota's application for $30 million in 505 funding, and what timetable do you foresee on the completion of the agreement on the Miles City line?

Mr. BILLIG. Well, the 505 application is being actively processed at the present time. It is our hope that the entire matter, which would include the granting of the 505 application, the approval of the agreement to purchase from the trustee, and the sale of the bonds for the acquisition, will all be completed by June 1, and by that date, necessary rehabilitation of the line, urgently required as a result of the spring thaw, may commence so the service on that line can be assured for the coming winter season.

Senator PRESSLER. If Congress took action to restrict title transfer of Milwaukee property rehabilitated with 505 money, what effect would this have on South Dakota's agreement with the Burlington Northern and the Milwaukee?

Mr. BILLIG. Under the present agreement it would vitiate it because the agreement is not contingent upon congressional approval. As I said, it is solely contingent upon the approval of the 505 and certain other minor matters. If that was a condition, undoubtedly we could not move with the certainty which we required, both to sell the bonds in the public market, because the bond pruchasers would need to know that there would be a certain deal, and also to assure timeliness which is required.

The main line is in very poor shape. It is absolutely imperative that the rehabilitation be begun by June 1 in order that the line can actually be preserved, and if it were also dependent upon this additional contingency, I am fearful that the uncertainty that would be created would make it impossible to go through with the deal as presently contemplated.

Senator PRESSLER. I certainly agree with your statement.

Based on South Dakota's experience with 505 funding, what suggestions do you have to improve the program as it is mandated by Congress?

Mr. BILLIG. Our experience has been wholly satisfactory, and at the present time we have no other specific program in mind for 505 funding. I might add that in line with the current concerns over the budget, if the Congress in its wisdom wanted to tighten the statute to actually require findings of greater need or unavailability of funds from other sources, this might be one so-called improvement; however, I would point out that the regulations of the FRA presently impose that requirement, and perhaps indeed that would be redundant. But at this time we would have no specific suggestions for any modification of the program.

Senator PRESSLER. You mentioned in your testimony that South Dakota has also applied for local rail service assistance. While these hearings do not specifically address the 803 program, would you please take a moment to explain how these funds will be used and the status of this application before the FRA?

Mr. BILLIG. Well, we have a continuing program in South Dakota. As you know, there is substantial deferred maintenance on these branch lines, and in order to interest the Burlington Northern to come on the line as our core operator, we had to assure them that we would bring this trackage to class II speeds to permit the unit train service which was contemplated and which makes it an economic and viable deal both for the Burlington Northern and the State of South Dakota.

As I have indicated, we have a $28 million rehabilitation program for our local lines, of which $12 million is Federal funds and $16 million private and State. These Federal funds are important in order to achieve these objectives and make an efficient transportation system in South Dakota, and it ties in with the main line because all of this tonnage, the grain tonnage which comes onto the main line, must be moved from these local branch lines. If you do not have both operating efficiently, the system as a whole will not work.

Senator PRESSLER. Thank you very much for your excellent testimony.

Senator DANFORTH. Thank you, Mr. Billig.

[The statement follows:]

STATEMENT OF HON. WILLIAM J. JANKLOW, GOVERNOR, STATE OF SOUTH DAKOTA

Mr. Chairman and Members of the Subcommittee; my name is William J. Janklow. I am the Governor of the State of South Dakota. With me this morning are James R. Myers, Director of the Division of Railroads for the State Department of Transportation and Jacob P. Billig, Esq., Special Counsel to the State of South Dakota for railroad matters.

We are pleased to have this opportunity to appear before you today and present the views of the State of South Dakota on the future of Federal railroad financial assistance programs. We believe our views on these matters will be of interest to the Committee as, for the past three years, we in South Dakota have been living in the crucible of continuing rail crisis which resulted from the Milwaukee Railroad bankruptcy. As our views on railroad issues have been shaped by that experience, we will begin today by outlining the problems that we have had to face and what we have done to try to solve them in order to ensure that the people and businesses of South Dakota will continue to have effective access to the national rail tansportation system. After presenting that background information, we will offer our views, in light of that experience, on the Federal role in resolving the type of railroad problems which we faced. Lastly, we will relate those views to the legislative issues before the Committee.

THE MILWAUKEE BANKRUPTCY AND THE STATE OF SOUTH DAKOTA

From the standpoint of the State of South Dakota, there could hardly have been a more significant and potentially disastrous transportation development than the Milwaukee Railroad bankruptcy. Prior to bankruptcy, the Milwaukee Railroad operated more trackage in the State (1,600 miles) than any other railroad. It was responsible for over 40% of South Dakota's total movements, including movement over its Main Line of important grain and coal shipments to other regions of the country. In addition, the Main Line provided the only feasible means of transporting lignite coal from Gascoyne, North Dakota to Big Stone, South Dakota, the site of the largest electric utility in our State. These coal and grain movements are absolutely essential to the economy of South Dakota and are of regional and national importance as well.

The State tackled the railroad crises posed by the Milwaukee bankruptcy on two fronts: we met the problems of the 1,300 mile branch line system which served the agricultural heartland of South Dakota; and we addressed the need to continue service over the Main Line, which runs through South Dakota for 300 miles of its 637 mile route between the Twin Cities and Miles City, Montana, and is the most direct railroad artery for the movement of South Dakota commodities to eastern and western markets.

When I took office on January 1, 1979, we believed that we would be able to deal, within a relatively short time frame, with the branch line issues. However, it was also clear that ensuring continued service over the Main Line would be a much more complicated and time-consuming matter. Service over the Main Line presented multi-state issues, involving the transportation of goods (including substantial movements of grain and coal to markets in the East and West) in national, not just local commerce. The utility at Big Stone provides electricity to customers in four states. Also, then, as now, the physical condition of the Main Line is such that significant capital is required for its rehabilitation, in addition to the capital needed for acquisition, if that became necessary. In brief, we knew from the outset that the problems we faced in working to continue service over the Main Line were difficult and complex and that it would take a variety of inputs over a substantial period of time in order to solve them. Nevertheless, we went to work on both the branch line and Main Line problems on virtually the first day of my Administration.

With respect to the branch lines, we began by identifying the tract which we considered necessary for an adequate collector system. We identified and negotiated the purchase of 800 miles of track from the Milwaukee Trustee for $22.25 million, and secured bankruptcy court approval for the transactions. We also purchased 20 miles of track from the Chicago and Northwestern for $1.28 million. We paid for this trackage solely with State funds raised by the imposition of a general sales tax. In the Spring of 1981 we commenced a $6 million rehabilitation effort and, in July of 1981, service over the largest state-owned rail system in the nation commenced. This service is being performed by the Burlington Northern Railroad, which we selected as our operator.

Federal grants for local rail service assistance have been an important component of these efforts. By the end of 1982, we will have completed $28 million in rehabilitation projects, using $12 million in Federal funds and $16 million in funds from State and private sources.

As you can see from the number I have just cited, we in South Dakota are fully committed to this rail effort and are spending a great deal of our own money to make it successful. Thus, we are not limiting our expenditures to the minimum State matching share under the program, but are spending significantly more than that when necessary to achieve our objectives. However, the Federal assistance which has been available has been indispensable. It would not have been possible for South Dakota, a small State (population of 690,178 [1]) with low per capita income (estimated average per capita income of $7,806, ranking 42nd of the States [2]) to have borne this burden entirely by itself.

Our efforts to acquire and rehabilitate the branch lines always contemplated the preservation of Main Line service. As I have noted, the Main Line is the most direct route for the movement of grain and other commodities originating on our branch line system to their markets in the East and the West. In addition, as I mentioned earlier, the Main Line provides the only means of transporting the lignite required to fuel the electric plant at Big Stone.

Two weeks ago, the State announced that it would purchase the Main Line from the Milwaukee Trustee and simultaneously lease it to the Burlington Northern Railroad to operate. This announcement marked the culmination of three years of effort on the part of the State which began in April of 1979, when the Milwaukee Trustee announced his proposal to embargo service over that Line. In order to induce the Trustee rescind his embargo proposal, the State facilitated the provision of $5.6 million in funds for "band-aid" rehabilitation of the Line, including $3.8 million in Federal assistance and $1.8 million from private sources. On the administrative front, the State actively supported a 62 percent rate increase for the coal movement to the utility. These efforts contributed significantly to the Milwaukee Railroad's ability to continue service over the Main Line.

However, the primary purpose of these efforts was to buy time in order for the State to develop a permanent solution for the continuation of Main Line service. As you undoubtedly appreciate, developing the long-range solution for the Main Line

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[1] 1980 Census.
[2] 1980 estimate, U.S. Department of Commerce, Bureau of Economic Analysis.

which the State is now about to implement has been an extremely complicated task. It has involved, among other things, a countless number of negotiations and consultations with interested parties, the finalization of a purchase agreement with the Milwaukee Trustee (after it became clear that efforts by other parties to purchase the track would not succeed), the development of a financing package to pay for the acquisition, and the securing of an operator.

We are obviously very pleased with the Main Line solution that we have achieved. This "miracle" has been possible for a variety of reasons, not the least of which is the willingness of the Burlington Northern Railroad to work with the State to achieve this solution in a manner which is compatible with its corporate needs and goals.

However, a vital linchpin to this solution has been the availability of Section 505 to provide funds on a low interest basis to finance the critically required rehabilitation of the Line.

Thus, while $30 million of private capital (raised through a bond issue borrowing to be repaid by the Burlington Northern through rental payments under its lease with this State) is being utilized to fund the acquisition of the Main Line, neither the involved State nor the private sector could fund the additional $30 million required to rehabilitate the Line. This additional $30 million for rehabilitation could only be secured through Federal sources and is being sought under a Section 505 application filed by the State in conjunction with the BN. I should also add that it was only because we have received a preliminary indication from the Federal Railroad Administration that our 505 application would be granted that we were able to have any credibility in or dealings with both the Milwaukee Trustee and the BN. Further, it is important to note that our agreements with both the Milwaukee Trustee and the BN are contingent upon the granting of our 505 application.

GENERAL OBSERVATIONS ON RAIL PROBLEMS AND FEDERAL PROGRAMS

Now that I have outlined the effort that we have made in South Dakota, I offer the Committee some general findings that we have made from this continuing involvement with railroad problems.

First, it is clear from our experience that rail problems such as we have confronted in South Dakota have national implications; they are not strictly local concerns. The grain that is collected on our branch line system and which moves over the Main Line is part of our national crop and is important to our foreign trade balance and our foreign aid programs. The coal that travels over our Main Line helps make our country more energy efficient and less reliant upon foreign oil supplies. Given the national aspects of these problems, it is entirely appropriate for the Federal Government to play a role in their resolution, including a financial role.

A related point that we would like to emphasize is that transportation is an absolutely vital part of any economy's infrastructure. Investment in rail essential rail services brings a good return. Without a transportation infrastructure many other parts of a region's economy (be it agricultural or industrial) simply cannot function. Indeed, from the perspective of the Federal Government, I think it is fair to say that the negative economic effects of the loss of essential rail services in a region—additional unemployment, lost tax revenues, and other adverse effects—have a negative financial impact that exceeds the investment required to keep rail transportation going in that region.

Second, it is clear from our experience, both with respect to our branch lines and the Main Line, that Federal rail financial assistance can be an important if not an indispensable ingredient for the solution of railroad problems which are otherwise fashioned and financed by state and local governments and the private sector. As you can see, in our case the State and the private sector have made enormous inputs. Nevertheless, none of these efforts would have borne fruit without the participation of the Federal Government.

Third, our experence shows that any significant railroad restructuring effort is difficult and time-consuming. This is not a business of pulling rabbits out of hats. Solving these types of problems takes interminable patience and almost always a longer time than anticipated.

LEGISLATIVE RECOMMENDATIONS

Finally, I would like to relate these general views to the legislative issues before the Committee.

It would be easy for me to say, now that South Dakota is on the verge of solving its most pressing railroad problems, that the existing Federal railroad assistance programs should be allowed to terminate in the near future. However, from a na-

tional perspective this would be disingenuous. Neither the Staggers Act nor the financial condition of the Nation's railroads rules out the possibility of additional railroad bankruptcies with impacts similar to those which the Milwaukee bankruptcy had upon South Dakota. Without the Federal programs upon which South Dakota relied in order to reach its solutions, the prospect that state and local governments, would, in the future, be able to pull themselves up by the bootstraps, as South Dakota has done, are remote.

Thus, while I believe that market forces and state and local governments can address many of the railroad problems which will confront the Nation in the future, I believe that the Federal mechanisms, which we relied upon to deal with those railroad problems which were truly overwhelming, should be left in place in the event they are needed. However, recognizing today's budget concerns, what could be made part of an extension of rail assistance programs is a stronger expression of Congressional intent than is included in present law that Federal assistance is to be provided only when it is clearly shown that the means to solve problems are unavailable from any other source. In this way, if applications are truly meritorious, the FRA could grant them. On the other hand, if market forces and local governments are capable of dealing with these problems, as the recent FRA report estimates, applications would be denied and budget savings achieved. However, the extension of the program which we advocate allows these decisions to be made in the context of the facts which will develop over time, rather than imposing a hard and fast judgment today as what is likely to occur in the future.

Second, since it usually requires an extended time period to implement solutions to the type of railroad problems addressed by the Federal programs. Congress should not allow the expiration of assistance for which there has been an appropriation prior to September 30, 1982. As I have indicated, the State of South Dakota has a Section 505 application before the Federal Railroad Administration for assistance in the rehabilitation of the Main Line. Funding for this application has been appropriated and we fully expect that the application will be approved long before the presently scheduled expiration of the 505 program on September 30, 1982. In view of this and the critical reliance which is being placed upon the granting of this appication in the solution to the Main Line problem, at a minimum, the law should provide continued authority for the disbursement of funds appropriated prior to September 30, 1982.

Finally, let me also reaffirm our interest in the local rail service assistance (803) program. As you can tell from this testimony, that program has also been important to us, particularly in our branch line program, and we would not like to see any premature reductions in that program, either.

That concludes our prepared statement, Mr. Chairman. We thank you again for the opportunity to appear before you today and, at this time, we would be pleased to answer any questions the Committee may have.

Senator DANFORTH. That concludes the hearing.

[Whereupon, at 10:55 a.m., the hearing was concluded.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF THE AMERICAN TRUCKING ASSOCIATIONS, INC.

The American Trucking Associations, Inc. (ATA)—the national organization representing the motor carrier industry including for-hire and private, intercity and urban trucking companies—opposes S. 2108 which seeks to amend the Railroad Revitalization and Regulatory Reform Act of 1976 (4R Act) by extending authorization of Section 505 for another three years. Section 505 authorized $1.4 billion for Federal purchase of redeemable preference shares to finance specific improvement projects, especially track rehabilitation. Since 1976, this legislation has helped eight railroads to rehabilitate more than 2,100 miles of track and restore 8,800 locomotives and freight cars. The program is scheduled to expire on September 30, 1982.

ATA's opposition to S. 2108 is based upon the belief that now is the time to reduce the public burden and allow market principles to apply to railroads. The financial position of the railroads is significantly different than it was in 1976. For example, profits for the U.S. rail system have risen dramatically: $427 million in 1978, $837 million in 1979, and $1,337 million in 1980. Moreover, the railroad's annual rate of return in 1980 was double that of the years 1975–1979. In other words, the railroad industry no longer needs to be subsidized with an effective interest rate of two percent (yield to maturity). In addition, continued positive change is expected because of the following:

Staggers Rail Act of 1980;

Tax advantages such as accelerated depreciation and sale-leaseback provisions from the Economic Recovery Tax Act of 1981;

Recent approval of mergers by the Interstate Commerce Commission; and

Increased coal and grain carriage for both domestic and foreign markets.

The fact that much of the program authority is unused is strong indication that the program is no longer necessary. For example, in 1980, the Department of Transportation obligated only $74 million of the $146 million available to it.

Finally, the ATA is not alone in its recommendation that Section 505 funds be terminated. In 1980, the General Accounting Office said that "Federal assistance solely to overcome deferred maintenance is not enough". Moreover, in 1981, the Department of Transportation's Inspector General said "most lines will ultimately be abandoned and little benefit will be accomplished by continuing Federal support".

In conclusion, ATA opposes extension of Section 505 of the 4R Act for the reason stated above. Furthermore, the trucking industry has been and is willing to serve the shippers along any abandoned and/or unprofitable line. Yet it is impossible to complete fairly for this traffic when the rail lines in question are heavily subsidized by 505 money.

STATEMENT OF KARL R. ZIEBARTH

My name is Karl R. Ziebarth. I am Executive Vice President-Financial, and a Director, of the Missouri-Kansas-Texas Railroad Company. My office is at 701 Commerce Street, Dallas, Texas 75202. I have held this position with the MKT since January 1, 1979, and prior to that was the Vice President-Finance, Secretary and Treasurer.

These comments are filed at the request of the Subcommittee to provide information on the MKT's experience and evaluation of the various Federal financial assistance programs which have been authorized by the Congress in recent years. Brief comments on proposed authorizations and appropriations for fiscal year 1983 are then provided.

By way of background, the MKT has borrowed $21.5 million at rates averaging between 8% and 11% from the Federal Financing Bank under guarantees authorized in Section 511 of the 4R Act. These funds were applied exclusively to heavy track rehabilitation under very detailed work programs agreed upon with the Federal Railroad Administration. Approximately $0.5 million of these loans have been repaid. Principal and interest payments are being met on schedule and we are confi-

dent that, absent the anticompetitive impact of the Union Pacific-Missouri Pacific merger, we will have no difficulty in paying these loans off by 1997. I might add, parenthetically, that we are also making substantial payments under loan guarantee programs which have expired, specifically the Title V program enacted in 1958, and Section 211 of the 3R Act. In fact, the Section 211, or "United States Railway Association" loan will be paid off in its entirety by 1983, some four years ahead of schedule. This originally amounted to $19 million; the current balance is slightly under $4 million.

We could not, for reasons related to the MKT's capital structure, enter into any Section 505 (preference share) financing, but we believe that it is a valuable and worthwhile program. There is a possibility, as some of the members of the Committee are aware, that a subsidiary of the MKT, the Oklahoma, Kansas and Texas Railroad (OK&T), might enter into Section 505 and 511 loans in connection with the proposed acquisiton of certain lines of the former Rock Island Railroad from the Estate of the Rock Island. We understand that binding commitments would have to be entered into prior to September 30, 1982, in order to make use of the funds presently authorized and appropriated, and that the Administration has proposed termination of both 505 and 511 programs as of that date.

The MKT has also participated in the Section 803 programs, so-called local rail service assistance, to a much smaller extent; the Federal assistance extended to those programs has totaled approximately $6.5 million through December 31, 1981. Again, these funds have been applied exclusively to heavy track rehabilitation.

Thus, the MKT has probably had as much experience with Federal assistance programs as any other solvent railroad, and we feel that we have established a positive, cooperative and open relationship with the FRA staff which has made the administration of the loans as flexible and reasonable as is possible within the limitations of the statutes and the implementing legislation. As we understand it, the Administration proposed to eliminate in its entirety the authority and appropriations for the 505 and 511 programs. In view of the administrative burdens which the basic structure of the Act imposes—and I refer here to the security provisions, the very detailed loan covenants which are required to protect the Federal interests, and the very rapid repayment schedules required (though 25 years is permitted, 20 years has generally been the maximum final maturity permitted)—the MKT supports the position which the Administration has taken, so long as subsidy/guarantee programs are also terminated for other, competing modes, notably water carriers.

I would like to add one small comment. The legislation under which the programs are terminated should make clear that existing appropriated funds remain available with respect to the 505 and 511 programs if a firm commitment has been entered into prior to September 30, 1982, even though documentation and actual drawdown have not been completed. The MKT might decide to seek some 505 funding in the name of the OK&T under an extraordinary situation presented in which crucial public service considerations, consistent with the criteria specified in the legislation, might override the security considerations otherwise presented.

It is quite disturbing to note the proposed reduction in funding for Section 803 programs. Our experience indicates that these programs, which are locally administered by the individual States, are far superior to those administered centrally. While the FRA retains oversight and policy review of the individual State projects, we have found it is enormously less expensive, less time-consuming and more cost-effective to deal with State-level officials, who are directly familiar with the rail lines in question and the affected shippers and communities involved. Each of the programs involve an element of subsidy or expenditures by the Federal government. But the 803 program, because of its lower cost of administration and greater flexibility, has, in our judgment, proven to be the best instrument for Federal rail assistance. It requires far less staff at the FRA to administer and is certainly consistent with the general premise of returning Federal activities to the States to the greatest extent possible. Some States choose to participate and others do not, and some States supplement Federal Funds with State funds. This is as it should be. It is also consistent with Federal policies toward other modes. As the members of the Committee are well aware, the massive expenditures—some call them subsidies—for water carriers and truck carriers through the instruments of the Highway Trust Fund and Corps and Engineers activities are 100% subsidies rather than the 50–80% subsidy level which has been the practice in 803 funding. It requires a substantial, concurrent commitment of user or local funds on the prescribed matching basis, which is a pretty good test of how real the interest is on the part of the recipient.

I would make several technical suggestions. The amount of the appropriation of the authority for fiscal year 1983 only should be increased, perhaps to the $48 million level specified in fiscal year 1982's budget resolution, or some other level chosen

by the Committee. As was the case under the 1982 authorization, the funds should be used solely for rehabilitation of track and not for operating subsidies, State rail planning, line acquisition or any other functions other than track repair. The FRA and the States should be given specific guidelines to the effect that any line meeting a State's own criteria qualifies, provided that density 6 million gross tons per mile, a slight change from the 5 million threshold now specified. It is also important that the actual appropriation voted by the Congress be equivalent to the authorization, and that it remain available until expended under the current rules, whereby unused funds can be redistributed from States not using them to programs of those States having greater needs.

I would also like to touch on one other point separately, which is purely a safety matter. For a number of years the funding which created the highway safety program has included specific earmarking for railroad grade-crossing elimination. In fiscal year 1983 budget this earmarking is eliminated, as I understand it. Many of us in the industry feel that some projects have been undertaken only because the funds were so earmarked. I would earnestly request the Committee to consider communicating to the appropriate Public Works committees a request that the earmarking of roughly one-fifth of these funds, estimated at $200 million, be maintained.

STATEMENT OF THE DELAWARE & HUDSON RAILWAY CO.

The Delaware and Hudson Railway Company has been a recipient of important financial assistance under Sections 505 and 511 of the Railroad Revitalization and Regulatory Reform Act of 1976. The assistance provided to the D&H under the two separate programs consisted of a loan guarantee extended in February 1978 in the amount of $8.9 million, for the purpose of refinancing locomotive units to meet the railroad's motive power needs; and additionally, in 1981, the D&H entered into a preference share agreement in the amount of $4.7 million for rehabilitation of the track structure of a portion of the D&H's main line extending between Albany and Montreal.

Both of these programs were of fundamental importance to the continued operating needs of the railroad, but would not have been able to have been provided except for the availability of the federal financial assistance. Particularly in the instance of the rehabilitation work on the D&H's north end main line, this federal assistance has helped to preserve the operating capability of what is a critical rail line in the national rail network extending between the U.S. and Canada, and representing the shortest rail connection between eastern Canada and many East Coast areas of the United States.

Although the D&B has been the beneficiary of a modest amount of aid, certain needs still remain, particularly in the area of track structure rehabilitation. The financing requirement for rehabilitation programs generally cannot be addressed in private financial markets given the financial record of the railroad. The only realistic alternative has been the Title V programs for rail assistance. Rail rehabilitation programs generally have a substantial return on investment because of the opportunity to improve transit time and thus reduce excess costs associated with transit delay including, among other things, overtime, arbitraries, equipment per diem rental, et cetera, and other costs which potentially result from deficient track structure, such as loss and damage.

For the D&H the goals of preserving critically needed rail structure and the strengthening of needed, but marginally viable, rail operations have clearly been met through the provision of 4R Act assistance. As the rail industry still does not earn an adequate return on invested capital (and certain individual members of the rail industry remain financially weak) and, as the rail industry remains a vital element in the national transportation infrastructure, we believe it important that some program of continued financial assistance be available under appropriate criteria to continue to strengthen vital rail services in the country.

Certainly, the rail industry has made significant strides since the passage of the Staggers Rail Act in improving its financial performance, but not all segments of the industry have as yet returned to robust financial health. Accordingly, we believe it remains in the public interest to provide a continuing program of assistance clearly focused on those capital needs in the rail infrastructure which are as yet unaddressed.

STATEMENT OF WILLIAM C. HENNESSY, COMMISSIONER OF TRANSPORTATION, NEW YORK STATE DEPARTMENT OF TRANSPORTATION

Since the early 1970's, New York State has been faced with a continuing rail service crisis -- a crisis that has varied in intensity during that time, but which has never been satisfactorily resolved. Indeed, this is true of the entire northeastern and midwestern portions of the country. Our State has made a major effort to deal with this crisis and, utilizing the resources made available to us by our voter-approved bond issues of 1974 and 1979, we have made very substantial investments of state funds in our rail infrastructure. As a point of interest, we have spent or committed nearly $255 million of state monies for direct rail purposes since 1975.

This effort was very effectively complemented by federal funds made available to us under the local rail service assistance program, to individual carriers under the Title V programs and so on. The need for these programs was well established at the time of their inception. We believe that, to a large extent, these needs still persist. In fact, given the extraordinary latitude granted Conrail by the Northeast Rail Service Act of 1981 (NERSA), particularly in the area of rail line abandonments, certain of these needs may be more pressing now than they were in the first place.

Thus, we find the elimination or reduction of these rail rehabilitation programs in the proposed budget for federal fiscal year (FFY) 1983 a major disappointment. We believe that this action is singularly mistimed. Certainly, functional, fully funded local rail service assistance and feeder railroad development programs are as needed as ever, given Conrail's new burst of major restructuring activity.

NERSA authorized $44 million for the local rail service assistance program for FFY 83 and $48 million for FFY 84. The proposed budget, however, recommends only $20 million for FFY 83 and none at all for FFY 84. Reductions of this magnitude will have significantly adverse impacts upon our programs in New York State. Should the level of federal aid fall markedly below the amount we would receive under the full authorizations noted above, we will be forced to either cut back our program, or make up the shortfall with scarce state dollars; neither is a desirable alternative.

As I am sure you already know, the expedited abandonment process permitted by NERSA allows Conrail to abandon up to 1,400 miles of rail line in our State. In fact, some 400 miles have already been abandoned under this process. We are awaiting Conrail's second round of "restructuring actions" under NERSA with some trepidation. This makes the need for a fully funded branchline assistance program all the more compelling. In an effort to minimize some of the adverse impacts of these abandonment actions, New York has thus far committed nearly $5 million in state funds to assist rail users, localities or railroads to continue operations essential to our economic base (e.g., through interim subsidy arrangements, construction of connections to permit more cost-effective operation, construction of team track facilities and so on). An additional $10 million will be made available by our legislature in April for these purposes. I want to emphasize, however, that this level of state assistance is predicated upon our receiving a full allocation of federal assistance for this program in FFY 83 and FFY 84. A reduction of over 50% in that allocation will materially damage our efforts in this regard.

We strongly urge the Congress to appropriate the full amount authorized by NERSA for the local rail service assistance program during FFY 83 -- $44 million. Similarly, the Congress should appropriate the full authorization -- $48 million -- for FFY 84. The program should not be terminated at the end of FFY 83, as the present budget proposal suggests.

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Our second major area of concern lies with the continued non-funding of the feeder railroad development program. Section 401 of the Staggers Rail Act of 1980 established the feeder railroad development program. It was the purpose of this program to provide shipper groups, communities and other financially responsible entities with an alternative to inadequate rail service or abandonment, and with an opportunity to preserve feeder lines and the service they provide prior to the total physical downgrading of such lines.

In order to assist in the effective implementation of the program, Section 405 of the Staggers Act required that no less than five percent of any monies appropriated for redeemable preference share financing (under Section 505 of the 4R Act) be dedicated to the feeder railroad program. Although the Staggers Act authorized some $700 million in additional funds for the redeemable preference share program (hence, some $35 million for the feeder railroad program) no monies were appropriated for this purpose during FFY 1981. Similarly, no monies have been appropriated for the redeemable preference share program (and, therefore, the feeder railroad program) in FFY 82. This practice has been continued in the proposed FFY 83 budget. Once again, no appropriation is being requested.

This lack of funding has rendered the program developed by Congress to ease the impacts of the pricing and abandonment freedoms granted carriers by the Staggers Act upon local shippers and communities almost totally ineffective. While this situation is no doubt an inadvertent result of Congress' desire to put increased emphasis on alternative funding mechanisms (e.g., the 4R Act's Section 511 obligation guarantee program) that are intended to achieve many of the same objectives as the preference share program, it has nonetheless thwarted the intent of the feeder railroad program.

When this lack of effectiveness on the program's part is combined with the additional "expedited abandonment" freedoms granted Conrail under Section 1156 of NERSA, we believe that the balanced approach the Congress attempted to take in addressing the concerns of shippers and communities, on the one hand, and those of Conrail, on the other, will be badly upset. The feeder railroad program offers affected shippers and communities an opportunity to deal with the problems presented by a Conrail branchline operation of a marginal or uneconomic nature before service or physical condition deteriorate further and before abandonment ("expedited" or otherwise) becomes necessary. It allows such business and community interests to preserve their rail services by taking over operation of the line from Conrail, thereby relieving Conrail (and, indirectly, the federal government) of involvement in a non-compensatory operation. To seriously inhibit this program from effecting its goals due to a lack of funding would appear to be inconsistent with Congress' intent relative to the program, as expressed in the Staggers Act.

In my statement incorporated into the record of this Subcommittee's November, 1981 Staggers Act oversight hearing, I suggested a mechanism that would allow the Congress to fund the feeder railroad program independently of annual appropriations, whether under Section 505 or otherwise. I still believe that this mechanism is an appropriate one, and I wish to again recommend it to you. Section 1156 of NERSA provides for the sale of lines abandoned by Conrail under this Section to another party at a cost of 75% of the line's net liquidation value (as determined by the ICC). The immediate disposition of any funds generated by such sales is not specified in the Act; Conrail maintains that such funds will accrue to Conrail. I again suggest

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that this would be eminently unfair. Conrail's properties are public properties, bought and paid for out of the public treasury. Surely, Conrail should not profit from their sale under "expedited" conditions.

These funds should be used instead to fund the feeder railroad program. As this program is a loan guarantee program -- not a grant program -- additional federal monies are not required; thus, an increase in the FFY 83 budget would not be required -- if my suggestion is adopted. The funds generated by the sale of lines abandoned under Section 1156 should be sufficient to provide for an effective level of loan guarantees over the course of the next two or three years (a reasonable estimate of the NLV for the average low-density line is about $30,000 per mile; 75% of this is $22,500 per mile. Conrail is contemplating abandonment of nearly 2,500 miles of line; if only one-third of this is sold, it will generate some $25 million to support the loan guarantees needed to implement the feeder railroad program).

Thus, it appears that a funding mechanism can be developed to support the program, a mechanism that does not require additional federal funds or appropriations actions. This mechanism can be implemented within existing legislation and will not have any direct budget implications. The proceeds realized from the sale of Conrail properties -- properties for which Conrail has never paid and never will -- under Section 1156 should be dedicated on a state-by-state basis to the implementation of the feeder railroad program. It is our firm belief that the proceeds from such sales will enable shipper groups, local community agencies, Class III railroad operators, and other entities to develop solutions to the problems of non-compensatory branchlines and threatened service discontinuances that will ease the necessity for further loss of rail service in subsequent years. Certainly, this would be preferable to the continued loss of our branchline services and to the disruptive effects such losses have upon those businesses and communities economically dependent upon these services.

We also believe that there are a number of marginal or bankrupt rail carriers who are nonetheless essential to the national transportation system and who still need assistance if they are to successfully rehabilitate their plant and equipment. At the present time, such assistance cannot be obtained at affordable prices from private sources. Indeed, the federal government is the only available source of such help. Yet, the proposed budget chooses just this time to terminate the possibility of such help. I do not believe that this would be in the best interests of the nation; certainly, it is not in New York State's interest. I urge you to carefully consider the deleterious impacts of such an action upon a rail transportation system that is only now making the first tentative steps towards recovery from decades of over-regulation and neglect. I urge you further to support the legislation (S.2108) recently introduced by Senators Danforth and Pressler that would extend this program (Section 505) for three more years and to appropriate sufficient funds to allow the program to achieve the goals set out for it in that legislation.

Finally, I would like to take note of the proposed budget's failure to provide funding for the "state participation program." This program provides limited federal assistance for the state-conducted rail safety inspection program. Despite its almost miniscule size -- only some $2.5 million in FFY 82 -- it has been both efficient and effective. It should be expanded to the extent envisioned by the Federal Railroad Safety Authorization Act of 1980 (PL95-423) and funded accordingly. Failure to do so would destroy the effort put forth over the last ten years to develop a federal-state partnership intended to promote rail safety. This partnership has been successful; it should be not be terminated.

In closing, I would like to thank the members of this Subcommittee for affording us an opportunity to express our thoughts on, and assessment of, the relevant portions of the proposed FFY 83 budget.

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U.S. SENATE,
Washington, D.C., March 29, 1982.

Hon. JOHN C. DANFORTH,
Chairman, Subcommittee on Surface Transportation, Committee on Commerce, Science, and Transportation, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: I wish to take this opportunity to express my interest in S. 2108, your legislative to reauthorize certain provisions of the Railroad Revitalization and Regulatory Reform Act of 1976.

The Section 505 Preference Share Program for rail rehabilitation and restructuring projects, established under Title V of the 1976 Act, originally authorized $1.1 billion in financing, of which $550 million has been committed. The program, which is due to expire on September 30 of this year, has been particularly beneficial to Illinois.

The St. Louis Metro Area Rail Gageway Enterprise (MARGE) project would restructure the rail network in East St. Louis, Illinois—the nation's second largest rail hub. This project would reduce delays caused by a traffic bottleneck at the hub and would increase the area's capacity to accommodate rail traffic. In addition, MARGE would free riverfront acres for economic development and would eliminate much of the interference caused by rail traffic over rail/highway crossings in East St. Louis. Railroads operating at the rail hub, local governments, and local labor and business interests support the project.

Section 505 preference share financing requires that funds must be paid back to the federal government at approximately one and a half times their original value. The MARGE project received $20 million in preference share financing for this fiscal year, enabling initial construction to commence. Further construction, however, will require additional financing and, for this reason, I would urge the Committee to reauthorize the program.

I commend you for your leadership on this matter.

Warm personal regards,

CHARLES H. PERCY,
U.S. Senate.

INTERSTATE COMMERCE COMMISSION,
Washington, D.C.

Hon. JOHN, C. DANFORTH,
U.S. Senate,
Washington, D.C.,

DEAR SENATOR DANFORTH: In connection with your hearing before the Surface Transportation Subcommittee on the Railroad Financial Assistance Program, you have asked for the Commission's comments on the feeder railroad development program. First, let me say that, although it is still too early to fully evaluate the program, the Commission supports this program and other similar alternatives which provide a method by which shippers and other interested persons can alleviate the hardships caused by elimination or downgrading of unprofitable or marginal lines.

The Commission implemented section 401 of the Stagges Act (49 U.S.C. 10910) in Ex parte No. 395, Feeder Railroad Development Program (copy enclosed). This provision gives shippers and interested persons (other than Class I or II railroads) an opportunity to preserve feeder lines by allowing the acquisition of such lines prior to downgrading or abandonment. The Commission may require railroads to sell lines to financially responsible persons if the public convenience and necessity require the sale or if the line is listed on the carrier's system diagram map as potentially subject to abandonment (categories 1 and 2). Our rules require offerors to submit evidence that they are capable of paying the Constitutional minimum value of the line and of providing adequate service for 3 years. However, the rules are designed to encourage privately negotiated agreements—we will set the value only if the parties fail to agree on a sale price among themselves. Although several notices of intent to file feeder line applications have been received, only one line has actually been sold pursuant to the feeder railroad development program.[1] That proceeding involved two competing applications to purchase a line segment owned by Conrail in Indiana. By decision served November 18, 1981, the Commission found both applicants to be financially responsible and able to provide adequate service. Conrail was

[1] Finance Docket No. 29601, Indiana Hi-Rail Corporation-Feeder Line Acquisition-Conrail Segment Between Beesons and Connersville, IN, not printed, served November 18, 1981.

therefore ordered to negotiate with either applicant for sale of the line. The parties have notified the Commission that Conrail and Indiana Hi-Rail Corporation have reached agreement, and the sale has now been consummated.

One possible reason for the few purchase applications under the program may be the enactment of the Northeast Rail Services Act of 1981 (NERSA) which provides one-time only special procedures for abandonment and sale of such lines. That legislation also shifts the cost of labor protection to the buyer of Conrail properties, a fact that may have had an impact on utilization of the feeder line program or NERSA by prospective purchasers of Conrail lines.

However, as indicated, several notices of intent to file feeder line purchase applications have been filed with the Commission. The statute serves a worthwhile purpose in that it provides a method by which shippers and other interested persons can preserve rail service. We will keep you informed of additional developments as we obtain more experience with implementation of the feeder line development program.

Sincerely yours,

REESE H. TAYLOR, Jr.,
Chairman.

ST. CLAIR COUNTY BOARD,
Belleville, Ill., March 11, 1982.

Hon. JOHN C. DANFORTH,
Chairman, Surface Transportation Subcommittee, Senate Committee on Commerce, Science, and Transportation, Washington D.C.

DEAR SENATOR DANFORTH: I am pleased that the Surface Transportation Subcommittee is holding a hearing on the future of the preference share program. I understand that Illinois' Transportation Secretary John Kramer has testified in support of continuing the program. I endorse this position because continuation of the program is crucial to the rail restructuring project in the St. Louis Rail Gateway.

The project, known as the St. Louis Metro Area Rail Gateway Enterprise, or MARGE, involves relocating, consolidating, and modernizing rail yards and facilities to improve the Gateway's handling capacity. The project is badly needed to eliminate one of the worst rail traffic bottlenecks in the United States.

The MARGE project is important to me because of its immense potential to revitalize and redevelop the economy in the Gateway area. Geographically, we always have been and will continue to be a key gateway for east-west and gulf export movements of freight. The improvements that this project will make, will strengthen one of the area's economic mainstays, and it will improve our ability to contribute to a productive and efficient national transportation network.

After many years of hard work, construction on the MARGE project will start this year. This would not be possible without the preference share funds appropriated by Congress. Continuing the preference share program is essential to the future progress and success of this project. It is needed to supplement and reinforce private financing, to allow participation by the more financially strapped railroads and to provide a predictable public funding resource to keep the project moving.

The MARGE project offers a unique opportunity for federal cooperation with the private sector and local communities. This partnership can be achieved by continuing the preference share program for the MARGE project.

I want to thank you and the other Subcommittee members for providing the opportunity to express my views on this important issue. I hope that my statement of support can be included in the Subcommittee's record of the hearing.

Sincerely,

JERRY F. COSTELLO, *Chairman.*

SOUTHERN ILLINOIS UNIVERSITY AT EDWARDSVILLE,
EAST ST. LOUIS DEVELOPMENT COMMISSION,
East St. Louis, Ill., March 11, 1982.

Hon. JOHN C. DANFORTH,
Chairman, Surface Transportation Subcommittee, Senate Committee on Commerce, Science, and Transportation, Washington, D.C.

DEAR SENATOR DANFORTH: The East St. Louis Economic Development Commission (EDC) is very pleased to endorse the continuation of the 505 preference share program as it relates to the St. Louis Metro Area Rail Gateway Enterprise, or MARGE.

The commission, which consists of business, labor, governmental and religious leaders, is actively engaged in revitalizing our local economy. We feel that the St. Louis Metro Area Rail Gateway Enterprise (MARGE) Project will have the major impact on our community's future.

MARGE offers a unique opportunity for federal cooperation with the private sector and local communities. The federal investment in East St. Louis will be leverage into several privately funded redevelopment efforts. The commission is presently working with several developers in implementing their proposals in the MARGE area.

We feel that, based on the potential impact on our community, the Senate Surface Transportation Subcommittee should give a favorable vote on continuing the 505 preference share program.

Sincerely,

EMIL F. JASON, *President.*

SOUTHWESTERN ILLINOIS PLANNING COMMISSION,
Collinsville, Ill., March 11, 1982.

Hon. JOHN C. DANFORTH,
Chairman, Surface Transportation Subcommittee, Senate Committee on Commerce, Science, and Transportation, Washington, D.C.

DEAR SENATOR DANFORTH: We understand that the Surface Transportation Subcommittee will be holding a hearing regarding the Preference Share Program. The Southwestern Illinois Metropolitan and Regional Planning Commission would like to comment and urge your favorable recommendation to continue this program.

The Commission is a seven-county regional planning agency, whose jurisdiction includes the Metro-East Area. We are concerned about the future of the St. Louis Metro Area Rail Gateway Enterprise (MARGE) Program, whose success is relying on the Preference Share Program as a part of its financing program. As you know, the Metro-East Area has always been a great gateway for east-west and Gulf shipments. Over the years the rail system has deteriorated; however, through the MARGE Project, we have made real progress toward the revitalization and reestablishment of this area as a key transportation exchange center. Not only will this be an important factor in the National transportation system, but it will be a crucial element in the economic vitality of the entire Metro-East Area.

Through the Railroad Steering Committee, agreements have been reached as to the restructuring plan, and there is strong interest to begin implementing various improvement programs this year. However, financing will depend upon the 505 Preference Share Program as well as the 511 Guaranteed Loan Program.

Therefore, the Commission requests that the Surface Transportation Subcommittee recommend the continuation of the Preference Share Program. Through cooperation by the Federal Government with the private and local public sector, we can realize multi-faceted success essential to this area and to the Nation.

Thank you for your consideration of our comments, which we hope will be included in the records of your investigation.

Sincerely,

THEADORE H. MIKESELL,
Executive Director.

OFFICE OF THE COUNTY EXECUTIVE,
SAINT LOUIS COUNTY,
Clayton, Mo., March 11, 1982.

Hon. JOHN C. DANFORTH,
Chairman, Surface Transportation Subcommittee, Senate Committee on Commerce, Science, and Transportation, Washington, D.C.

DEAR JACK: We are pleased that the Surface Transportation Subcommittee is holding a hearing on the future of the preference share program. We understand that Illinois' Transportation Secretary John Kramer has testified in support of continuing the program. We endorse this position because continuation of the program is crucial to the rail restructuring project in the St. Louis Rail Gateway.

The project, known as the St. Louis Metro Area Rail Gateway Enterprise, or MARGE, involves relocating, consolidating, and modernizing rail yards and facilities to improve the Gateway's handling capacity. The project is badly needed to eliminate one of the worst rail traffic bottlenecks in the country.

The MARGE project is important to us because of its immense potential to revitalize and redevelop the economy in the Gateway area. Geographically, we always have been and will continue to be a key gateway for east-west and gulf export movements of freight. The improvements that this project will make, will strengthen one of the area's economic mainstays, and it will improve our ability to contribute to a productive and efficient national transportation network.

After many years of hard work, construction on the MARGE project will start this year. This would not be possible without the preference share funds appropriated by Congress. Continuing the preference share program is essential to the future progress and success of this project. It is needed to supplement and reinforce private financing, to allow participation by the more financially strapped railroads and to provide a predictable public funding resource to keep the project moving.

The MARGE Project offers a unique opportunity for federal cooperation with the private sector and local communities. This partnership can be achieved by continuing the preference share program for the MARGE project.

We want to thank you and the other Subcommittee members for providing the opportunity to express our views on this important issue. We hope that our statement of support can be included in the Subcommittee's record of the hearing.

Sincerely,

GENE MCNARY.

METRO-EAST CONFERENCE OF BLACK MAYORS, INC.,
March 12, 1982.

Hon. JOHN C. DANFORTH,
Chairman, Surface Transportation Subcommittee, Senate Committee on Commerce, Science, and Transportation, Washington, D.C.

DEAR SENATOR DANFORTH: We are pleased that the Surface Transportation Subcommittee is holding a hearing on the future of the preference share program. We understand that Illinois' Transportation Secretary John Kramer has testified in support of continuing the program. We endorse this position because continuation of the program is crucial to the rail restructuring project in the St. Louis Rail Gateway.

The project, known as the St. Louis Metro Area Rail Gateway Enterprise, MARGE, involves relocating, consolidating, and modernizing rail yards and facilities to improve the Gateway's handling capacity. The project would also enhance the chances for redevelopment of vacant and valuable riverfront land. The project is badly needed to eliminate one of the worst rail traffic bottlenecks in the country.

The MARGE Project is important to us because of its immense potential to revitalize and redevelop the economy in the Gateway area. With this project, we envision a spurt/rise in the employment area which is sorely needed for the area. Geographically, we always have been and will continue to be a key gateway for east-west and gulf export movements of freight. The improvements that this project will make, will strengthen one of the area's economic mainstays, and it will improve our ability to contribute to a productive and efficient national transportation network.

After many years of hard work, construction on the MARGE project will start this year. This would not be possible without the preference share funds appropriated by Congress. Continuing the preference share program is essential to the future progress and success of this project. It is needed to supplement and reinforce private financing, to allow participation by the more financially strapped railroads and to provide a predictable public funding resource to keep the project moving.

The MARGE project offers a unique opportunity for federal cooperation with the private sector and local communities. This partnership can be achieved by continuing the preference share program for the MARGE Project.

We want to thank you and the other subcommittee members for providing the opportunity to express our views on this important issue. We hope that our statement of support can be included in the subcommittee's record of tne hearing.

Sincerely,

Mayor CARL E. OFFICER,
President.

Mayor RILEY OWENS,
Secretary.

Mayor MARCELLUS WEST,
Vice President.

Mayor TYRONE ECHOLS.

EAST-WEST GATEWAY COORDINATING COUNCIL,
St. Louis, Mo., March 15, 1982.

Hon. JOHN C. DANFORTH,
Chairman, Surface Transportation Subcommittee, Senate Committee on Commerce, Science, and, Transportation, Washington, D.C.

DEAR SENATOR DANFORTH: The East-West Gateway Coordinating Council is pleased that the Senate's Surface Transportation Subcommittee is holding a hearing on the future of the Preference Share Program. We are aware that Secretary John Kramer of the Illinois Department of Transportation has testified in support of the program and we endorse his position since continuation is crucial to the rail Restructuring Project in the St. Louis Rail Gateway.

Known as the St. Louis Metro Area Rail Gateway Enterprise, or MARGE, said project is important to the Council because of its immense potential of revitalizing the economy in the Gateway area. It involves the relocation, consolidation and modernization of rail yards, corridors, and other facilities to improve the Rail Gateway's handling capacity. It is needed to eliminate one of the worst rail traffic bottlenecks in the nation.

Geographically, the St. Louis metropolitan area has always been, and will continue to be, a key gateway for east-west and gulf export movements of freight. The improvements that the MARGE project will make, will strengthen one of the metropolitan area's economic mainstays while improving our ability to contribute to a productive and efficient national transportation network. This project offers a unique opportunity for governmental cooperation—at the federal, state and local levels—with the private sector. This partnership can be achieved by continuing the Preference Share Program for the MARGE project.

After many years of study and hard work. Construction on the MARGE project will begin this year. This would not be possible without the Preference Share funds appropriated by Congress. We believe that the extension of the Preference Share Program is essential to continued progress and the ultimate success of the MARGE project. Needed as a supplement and reinforcement to private financing, the Preference Share Program would allow participation by those railroads having financial difficulties since it would provide a predictable public funding resource to keep the project moving

We thank you and the subcommittee for allowing us the opportunity to communicate our views on a very important matter. We hope that our letter of support will be included in the subcommittee's record of the hearing.

Sincerely,

MATTHEW D. MELUCCI,
Executive Director.

THE NATIONAL RAILROAD CONSTRUCTION AND MAINTENANCE ASSOCIATION, INC.,
Highland, Ind., March 18, 1982.

Senator JOHN C. DANFORTH,
Chairman, Committee on Finance, Surface Transportation Subcommittee, Washington, D.C.

DEAR SENATOR DANFORTH: I am the chief paid officer of a non-profit, industry-boosting building trades association whose nationally-dispersed independent railroad contractor members are engaged in the construction specialty of building, maintaining, rehabilitating, renovating, relocating, and taking up trackage and signal systems for 440 commercial railroads and numerous port authorities, industrial complexes, mass transit systems, and mining/forestry/quarrying interests in the United States.

Our members are in full accord with continuance of the federal funding available under the 4 R Act to state agencies and railroad companies for badly-needed rehabilitation projects of operating rail lines, and for reactivation of abandoned lines. The funding of such grants or loan guarantees is imperative to assure continuation of fast, safe and economical transport of commercial freight and public passengers over the nation's rail system.

Such funding would provide for the vital transport of military troops and armaments in wartime to gird the nation's defense program. It would reduce vehicular highway strangulation and accidents, use of scarce and expensive petroleum products, and play a major role in reducing environmental pollution.

Further, it would remove America from being subservient to OPEC nations controlling the supply and price of such petroleum. And it would prevent severe

economic loss to citizens and governments by reducing escalation of unemployment in numerous areas already hard-hit by a depressed economy. Without continuous funding under the present Act, strategic but ailing rail lines will have to be abandoned.

Our second concern is that most of federal funding is made direct to railroad management, allowing them to perform work with their own in-house forces. Since there is no competitive bidding process, there is no assurance to the government and the American taxpayer that they are getting the most for the hard-to-come-by tax dollar. Neither do we know how the money is spent, nor that all is used for rehabilitation rather than overhead.

Federal assistance is advanced to financially-weak railroad companies whose construction/maintenance equipment is inadequate, and whose work methods are less productive—two reasons why the trackage deteriorated. Should the taxpayer fund such inefficient and inadequate rehabilitation when fully-equipped, cost-conscious, and self-sustaining contractors are hurting on the sidelines?

We firmly believe that on federally-subsidized or guaranteed financing on rail projects—grant or loan—the work contract should be awarded to the best-qualified contractor in an open and competitive bidding. This would not preclude the railroads from submitting a similarly-competitive and equally-accountable bid for their own crews to perform the job.

Under this free enterprise system—which is working well in all other segments of the construction industry—all bidders would be bound by the same set of written specifications for quantity, quality and scope of work. It is our belief that this is a requirement of all federally-funded highway projects, and it should apply as well to federally-funded railroad projects. Are utility companies permitted to build public works dams; are airlines allowed to build public airports?

You are aware that the construction industry is suffering a depressed market; many tax-paying firms and long-time large employers are closing their doors. Approximately 600–700 independent railroad contractors in the United States have years of railroad construction/maintenance/repair experience, specialized equipment, and veteran workmen ready for—and in need of—work. We feel this is yet another urgent reason for reauthorization of funds.

They need work to stay operative; they deserve the opportunity as tax-generating entities and employment-providing sources, as self-sustaining free enterprise operators. When the railroads get the federal subsidy, let the independent contractor get the work; both factions benefit. We advance this as another strong argument for competive bidding for these funds.

Therefore we reiterate our firm conviction that the best way to get the most from federal funds accruing to railroad projects is to put out all jobs for open bidding by the industry. A copy of our 1982 Directory & Buyers' Guide is enclosed for your files.

We would appreciate the opportunity to discuss this with you in person, or to testify before any committee hearing, or to prepare any further reasons for reauthorization and competitive bidding. Thank you for any cooperation you elect to extend.

Respectfully submitted,

LARRY SHIELDS,
Executive Director.

THE NATIONAL RAILROAD CONSTRUCTION AND MAINTENANCE ASSOCIATION, INC.,
Highland, Ind., March 24, 1982.

Miss PAMELA GARVIE,
Staff Aide, Senator John C. Danforth, Chairman, Committee on Finance, Surface Transportation Subcommittee, Washington, D.C.

DEAR MISS GARVIE: Confirming our telephone conversation of a few moments ago, it was our intent that our letter of March 18th be accepted as written testimony for the hearing on the reauthorization of Section 505 of the 4 R Act.

In re-reading our submittal, we realize now that we failed to make that intent clear; our Board has instructed me to call you to emphasize that intent. An extra copy of our letter is enclosed for ease in identifying.

We also advised you that we were printing the letter verbatim in the next issue of our official monthly houseorgan, *Clear Track:* we sent you a specimen copy with our original letter. We also asked you for a picture of Sen. Danforth to illustrate the article, and you promised to have someone on the Senator's staff call about filling that request.

Thank you for any and all professional courtesy of your office.

Constructively,

LARRY SHIELDS,
Executive Director.

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